

[1300]--Loss of Right Provisions--35 U.S.C. Section 102(b)

[1310]--Public Use and "On Sale"--Experimental Use

[1311]--Public Use--Generally

[1311.10]--Decisions Up to *Pfaff*

***Milliken Research Corp. v. Dan River, Inc.***, 739 F.2d 587, 222 USPQ 571 (Fed. Cir. 1984)

SAMPLES TO CUSTOMERS. Fabric samples sent out to customers before the critical date were in public use or "on sale" and constituted prior art.

***Concrete Unlimited, Inc. v. Cementcraft, Inc.***, 776 F.2d 1537, 227 USPQ 784 (Fed. Cir. 1985), *cert. denied*, 479 U.S. 819 (1986)

FILED WITH PUBLIC AGENCY. A design that was on file with a public agency in connection with a construction project more than one year prior to the patent application filing date was "in public use."

***Orthokinetics, Inc. v. Safety Travel Chairs, Inc.***, 806 F.2d 1565, 1 USPQ2d 1081 (Fed. Cir. 1986)

(1) CLAIMED INVENTION. Existence of a public use or on sale bar is to be determined by reference to the claimed invention.

(2) PROTOTYPE LACKING CLAIM ELEMENTS. As to a prototype demonstrated by the inventors prior to the critical date, there was substantial evidence indicating that the prototype lacked certain elements of the claims of the patent. Therefore, the district court erred in overturning the jury's determination that there was no clear and convincing evidence that the claimed invention was offered for sale or in public use more than one year before the filing of the application for the patent in suit.

***Baker Oil Tools, Inc. v. Geo Vann, Inc.***, 828 F.2d 1558, 4 USPQ2d 1210 (Fed. Cir. 1987)

PRECISION IN DETERMINING CRITICAL DATE FOR BARS. "The 'critical date', the date one year before the filing date of the patent application, is determined retrospectively. Therefore, those activities that will act as a bar must be of such character that it is apparent at the time they are conducted that patent filing must be completed within a year. Substantial property rights are at issue, and the trial court must determine with precision when the bar came into being, for the bar must be proven by clear and convincing evidence."

***LaBounty Manufacturing, Inc. v. U.S. Int'l Trade Comm'n***, 958 F.2d 1066, 22 USPQ2d 1025 (Fed. Cir. 1992).

GENERAL PURPOSE--ASSERT RIGHTS TO INVENTION WITH DUE DILIGENCE. "The general purpose behind section 102(b) bars is to require inventors to assert with due diligence their right to a patent through the prompt filing of a patent application."

***Tone Brothers, Inc. v. Sysco Corp.***, 28 F.3d 1192, 31 USPQ2d 1321 (Fed. Cir. 1994)

(1) POLICIES DEFINE PUBLIC USE BAR--TOTALITY OF CIRCUMSTANCES. "[T]o determine whether an invention was in public use ... a court must consider how the totality of the circumstances of the case comports with the policies underlying the public use bar ... . This approach is necessary because the policies behind the bar, in effect, define it."

(2) FOUR POLICIES. "We have enumerated the policies underlying section 102(b), albeit in the 'on sale' context, as follows: (1) discouraging the removal, from the public domain, of inventions that the public reasonably has come to believe are freely available; (2) favoring the prompt and widespread disclosure of inventions; (3) allowing the inventor a reasonable amount of time following sales activity to determine the potential economic value of a patent; and (4) prohibiting the inventor from commercially exploiting the invention for a period greater than the statutorily prescribed time."

(3) EXPERIMENTATION. "Evidence of experimentation is part of the totality of the circumstances considered in a public use inquiry. The fact that there was experimentation occurring is relevant to the question of whether the activities of the inventor were at odds with any of the four policies underlying the public use bar."

***Allied Colloids Inc. v. American Cyanamid Co.***, 64 F.3d 1570, 35 USPQ2d 1840 (Fed. Cir. 1995)

(1) "A 'public use' for the purpose of barring access to the patent system is a use more than a year before the patent filing date, whereby a completed invention is used in public, without restriction and in circumstances other than 'substantially for the purposes of experiment.' "

(2) "The public use bar serves the policies of the patent system, for it encourages prompt filing of patent applications after inventions have been completed and publicly used, and sets an outer limit to the term of exclusivity."

***Lough v. Brunswick Corp.***, 86 F.3d 1113, 39 USPQ2d 1100 (Fed. Cir. 1996), *petition for rehearing denied & suggestion for rehearing in banc declined*, 103 F.3d 1517, 41 USPQ2d 1385 (Fed. Cir. 1997), *cert. denied*, 522 U.S. 806 (1997).

(1) ANY USE BY PERSON OTHER THAN INVENTOR NOT UNDER SECRECY OBLIGATION. "We have defined 'public use' as including 'any use of [the claimed] invention by a person other than the inventor who is under no limitation, restriction or obligation of secrecy to the inventor.' "

(2) FOUR POLICIES. "An evaluation of a question of public use depends on 'how the totality of the circumstances of the case comports with the policies underlying the public use bar.' ... These policies include:

(1) discouraging the removal, from the public domain, of inventions that the public reasonably has come to believe are freely available;

(2) favoring the prompt and widespread disclosure of inventions;

(3) allowing the inventor a reasonable amount of time following sales activity to determine the potential economic value of a patent; and

(4) prohibiting the inventor from commercially exploiting the invention for a period greater than the statutorily prescribed time."

(3) PLAGER, with whom Rader joins, dissenting from the order declining the suggestion for rehearing in banc. "The statute does not describe the circumstances under which an invention is to be considered 'in public use.' Presumably the distinction is between a public and a private use." See § 1314.

(1) USE IN LABORATORY WITHOUT IMPOSITION OF CONFIDENTIALITY. A third party's independent reduction to practice and use of the patented invention, a sealless, blood component separating centrifuge, in a laboratory, without imposition of confidentiality, more than a year before the patentee filed its application, is an invalidating "public use" and not an excused experimental use.

(2) The patentee Baxter filed its application for the patent in suit on May 14, 1976, making the critical date May 14, 1975.

(a) Suaudeau, a National Institutes of Health (NIH) research scientist, studied isolated heart preservation by perfusion. He discovered that rotating seals in a centrifuge he used damaged blood platelets. He consulted another NIH scientist, Ito, who recommended using a sealless centrifuge.

(b) Before May 14, 1975, Suaudeau had the NIH's machine shop make a centrifuge. In his laboratory at the NIH campus in Maryland, he tested the centrifuge, confirming that it worked both "for its original purpose, as a separator" and "for his own purposes" in producing platelet-rich plasma.

(c) After leaving the NIH, Suaudeau began working at the Massachusetts General Hospital, where he again tested the centrifuge.

(d) "Neither Suaudeau nor Ito had any relationship or connection with ... the inventor named in the [patent-in-suit]."

(3) In a suit for patent infringement, the district court granted summary judgment that the patent was invalid because Suaudeau had publicly used it before the critical date and the use was not experimental.

(4) "We have described 'public use' as including 'any use of [the claimed] invention by a person other than the inventor who is under no limitation, restriction or obligation of secrecy to the inventor.' ... In considering whether a particular use was a public use within the meaning of section 102(b), we consider the totality of the circumstances in conjunction with the policies underlying the public use bar. ... These policies include:

'(1) discouraging the removal, from the public domain, of inventions that the public reasonably has come to believe are freely available; (2) favoring the prompt and widespread disclosure of inventions; (3) allowing the inventor a reasonable amount of time following sales activity to determine the potential economic value of a patent; and (4) prohibiting the inventor from commercially exploiting the invention for a period greater than the statutorily prescribed time.' "

(5) REMOVAL FROM PUBLIC DOMAIN. "[T]he most applicable policy underlying the public use bar here is discouraging removal from the public domain of inventions that the public reasonably has come to believe are freely available. However, invalidation of the ... patent is not inconsistent with that policy. [The third party] Suaudeau's use was public, and it was not experimental in a manner that saves [the] patent."

(a) "The centrifuge that Suaudeau was using met all the limitations of the [patent's] claims ... ."

(b) "Suaudeau testified that the centrifuge worked as a separator as soon as he operated it, which verified that it would work for its intended purpose as a centrifugal blood processing apparatus and method as recited in the claims."

(c) "Suaudeau further testified that others at NIH came into his laboratory and observed the centrifuge in operation, including co-workers, who were under no duty to maintain it as confidential."

(d) "Nor did Suaudeau make any discernible effort to maintain the centrifuge as confidential. His laboratory was located in a public building, and he testified that he recalled 'people coming and looking, people flowing into the lab' before the critical date. He even testified that NIH had an anti-secrecy policy."

(e) "Suaudeau's lack of effort to maintain the centrifuge as confidential coupled with the free flow into his laboratory of people, including visitors to NIH, who observed the centrifuge in operation and who were under no duty of confidentiality supports only one conclusion: that the centrifuge was in public use. ..."

(6) **ETHICAL OBLIGATION OF SECRECY.** There was no evidence supporting the patentee's assertion that 'those who observed the centrifuge were under an ethical obligation to keep it secret. ... According to unrefuted testimony ... , any relevant ethical obligation that existed was to refrain from taking credit for the work of others, or publishing the work of others without permission.'

(7) **THIRD PARTY'S PATENT APPLICATION AND DECLARATION.** In a patent application on the sealless centrifuge, filed by the NIH, Ito, who built the centrifuge for the third-party prior user Suaudeau, "averred that the invention had not been in public use more than one year before the filing date of his patent application." "Ito's averment was a statement of his own appraisal of the relevant facts, made in relation to his own application for patent. It does not bind a court later evaluating those facts, especially in relation to a third party's application for patent. Moreover, the declaration was only one factor to be considered under a totality of the circumstances evaluation. Ito's conclusory statement does not preclude the district court from deciding that the undisputed facts indicated a public use of the claimed invention before the critical date; the court thus did not err in discounting it."

(8) The third party's use was not experimental. See § 1314.

(9) "Since we hold that there is no genuine issue of material fact that the centrifuge was in public use at NIH before the critical date, we need not address whether Suaudeau's use of the centrifuge at Mass. General was also a public use before the critical date."

(10) **NEWMAN, dissenting.** "This case relates to the status as 'public use' of unpublished information used for research purposes by a person who was completely independent of the inventor of the patent-in-suit. Can such private laboratory research use, if it occurs after a laboratory 'reduction to practice,' serve as an invalidating 'public use' bar to the patented invention of another? The panel majority so holds."

(a) "This new rule of law, that unpublished laboratory use after a reduction to practice is a public use, creates a new and mischievous category of 'secret' prior art."

(b) "[T]he patent statute and precedent do not elevate private laboratory use after a reduction to practice to 'public use' under § 102(b). When the public use is unknown and unknowable information in the possession of third persons, 35 U.S.C. § 102 accommodates such 'secret prior art' only in the limited circumstances of § 102(e).

(c) **PERSONAL DEFENSE.** "The issue here is not that of an Ito/Suaudeau personal defense as a prior user, a matter of current discussion among policy-makers."

(d) "Suaudeau's use in his laboratory did not become a public use under § 102(b) as soon as the Ito centrifuge was reduced to practice. *Cf. W.L. Gore & Assoc., Inc. v. Garlock Inc.* ... (Fed. Cir. 1983) (a third person's secret commercial activity, more than one year before the patent application of another, is not a § 102(b) bar to the patent of another) ... ."

(e) "Sections 102(a) and (b) establish that prior art is prior knowledge that meets specified requirements. This new category of internal laboratory use is immune to the most painstaking documentary search. The court thus produces a perpetual cloud on any issued patent, defeating the objective standards and policy considerations embodied in the § 102 definitions of prior art."

(f) PRIOR INVENTION--INTERFERENCE. "Cullis and Ito were engaged in an interference proceeding in the PTO, in which Ito prevailed. Elaborate rules and extensive precedent govern the determination of reduction to practice under § 102(g). ... Today's acquiescence in Suaudeau's purported reduction to practice, based on credibility determinations and other findings unwarranted in a summary proceeding, is unburdened by the usual rigors of this determination."

(g) "The record does not explain the relationship between the Ito patent, the lost counts of the interference, and the patent in suit. However, it is not irrelevant that the PTO issued the Cullis patent despite the Ito patent, and that the information that is deemed invalidating by the panel majority was not so viewed by the PTO."

(h) "Section 102(b) was not intended to add to the bars based on information not published or publicly known or otherwise within the definition of prior art. A non-public use does not become a public use after a reduction to practice. ... I can discern no benefit to society, or to the interest of justice, in this new unreliability of the patent grant."

***Petrolite Corp. v. Baker Hughes Inc.***, 96 F.3d 1423, 40 USPQ2d 1201 (Fed. Cir. 1996)

"Whether a public use has occurred is a question of law, ... and '[t]his court has emphasized that the totality of the circumstances must be considered in determining whether a particular event creates an on-sale or public use bar.' ... The policies underlying the bar, such as 'allowing the inventor a reasonable amount of time ... to determine the potential economic value of a patent' and 'prohibiting the inventor from commercially exploiting the invention for a period greater than the statutorily prescribed time,' are also relevant to the public use determination."

***Continental Plastic Containers v. Owens Brockway Plastic Products, Inc.***, 141 F.3d 1073, 46 USPQ2d 1277 (Fed. Cir. 1998)

DIFFERENT POLICY EMPHASES FOR "PUBLIC USE" AND "ON SALE." "'Public use' and 'on-sale' bars, while they share the same statutory basis, are grounded on different policy emphases. The primary policy underlying the 'public use' case is that of detrimental public reliance, whereas the primary policy underlying an 'on-sale' case is that of prohibiting the commercial exploitation of the design beyond the statutorily prescribed time period." See § 1314.

#### [1311.20]--Pfaff and Subsequent Decisions

***Pfaff v. Wells Electronics, Inc.***, 525 U.S. 55, 48 USPQ2d 1641 (1998)

(1) The Section 102(b) on-sale bar applies when, before the critical date, (a) a newly invented product was the subject of a commercial offer for sale, and (b) the invention was "ready for patenting" because either (i) the invention was reduced to practice, or (ii) the inventor prepared a description that was sufficiently specific to enable a person skilled in the art to practice the invention. See § 1312, § 1313.

(2) PUBLIC DOMAIN--CONFINE MONOPOLY DURATION. "... § 102 of the Patent Act serves as a limiting provision, both excluding ideas that are in the public domain from patent protection and confining the duration of the monopoly to the statutory term. See, e.g., *Frantz Mfg. Co. v. Phenix Mfg. Co.*, 457 F.2d 314, 320 (C.A. 7 1972)."

(1) DEFINITE STANDARD--COUNSELING AGAINST "MULTIFACTOR 'TOTALITY OF THE CIRCUMSTANCES' TEST." In *Pfaff v. Wells Elecs., Inc.* (1998), the Supreme Court "observed that the Patent Act's on-sale and public use provisions strive to provide 'inventors with a definite standard for determining when a patent application must be filed.' ... In this context, the Supreme Court counseled against the multifactor 'totality of the circumstances' test as a trigger for the on-sale bar, crediting this court for criticizing such a trigger 'as unnecessarily vague.' "

(2) NO POLICY BALANCING. "Accordingly, this court follows the Supreme Court's two-part test without balancing various policies according to the totality of the circumstances as may have been done in the past. See, e.g., *Envirotech Corp. v. Westech Eng'g, Inc.*... (Fed. Cir. 1990); *UMC Elecs. Co. v. United States* ... (Fed. Cir. 1987); *King Instrument Corp. v. Otari Corp.*... (Fed. Cir. 1985)." See § 1313.

***Mitsubishi Electric Corp. v. Ampex Corp.*, 190 F.3d 1300, 51 USPQ2d 1910 (Fed. Cir. 1999)**

(1) Substantial evidence supported a jury verdict that a patent's claims were invalid because of a public use more than a year before an application for the patent was filed.

(2) DIGITAL TRANSMISSION ERROR CORRECTION--CODING AND DECODING. The patent concerned "a system for correcting errors that occur during the transmission, recording, or reproduction of digital information."

(3) DEMONSTRATION AT CONVENTION. At trial, a jury held each claim of the patent "was proven invalid by clear and convincing evidence." The verdict did not distinguish between three principal grounds of invalidity. One ground asserted by the accused infringer "was an invalidating public use based on a demonstration at an Audio Engineering Society convention."

(4) DISPUTE ABOUT WHAT WAS DEMONSTRATED. "Although [the patentee] did not dispute that a device was demonstrated in May 1978, the parties disputed whether the invention as recited in the claims was used at the demonstration."

(a) The patentee (i) "describes the demonstrated device as 'some prototype device, whatever its structure' and states that there was no evidence of encoding/recording at the demonstration," and (ii) "argues that there was not substantial evidence that the claimed invention was used in public, and that the question of invalidity based on public use should not have been presented to the jury."

(b) TESTIMONIAL, DOCUMENTARY, AND OPINION EVIDENCE. "Witnesses presented testimonial, documentary, and opinion evidence on the issue."

(i) INVENTOR REPORT. "There was a 1978 report written by one of the ... inventors, which included circuit diagrams of the recorder that was present at the AES convention and of its encoding and decoding circuitry. The inventor's report stated that 'the performance' of the device was demonstrated, and the inventor testified that the demonstration device had encoding and decoding circuitry but that he could not remember whether this circuitry was used in the demonstration."

(ii) "There was ... testimony that the demonstration included a tape editing demonstration."

(iii) EXPERT TESTIMONY. The accused infringer's "expert witness testified that based on his review of the written and testimonial evidence, the invention of the ... patent was used at the demonstration."

(c) JURY INSTRUCTION. "There was no criticism of the jury instruction on the applicable law, which was as follows:

'A public use for the purpose of barring access to the patent system is a use for more than a year before the patent's earliest effective filing date, whereby [the] completed "invention" is used in public, without restriction and in circumstances other than substantially for the purpose of experiment. The test is not whether the invention was present at a public place but whether it was actually used in public as recited in the claims of the patent.' "

(d) EVENT 18 YEARS AGO--DOCUMENTARY EVIDENCE. "Although both sides debate issues of credibility and recollection after the passage of eighteen years, we conclude that the documentary evidence itself could support a finding that the claimed invention was used in public in May 1978."

***Ultra-Tex Surfaces, Inc. v. Hill Brothers Chemical Co.***, 204 F.3d 1360, 53 USPQ2d 1982 (Fed. Cir. 2000)

THIRD PARTY ACTIVITY. To show that infringement under the doctrine of equivalents would not expand a patent's claim to cover the prior art, a patentee posed a hypothetical expanded claim. See § 5425. The patentee's "hypothetical claim would not have been allowed by the PTO, as the accused process that it encompasses was in public use more than one year prior to" the critical date. See 35 U.S.C. § 102(b) (1994) ...; *In re Epstein*, 32 F.3d 1559, 31 USPQ2d 1817, 1820 (Fed. Cir. 1994) ("The section 102(b) "public use" and "on sale" bars are not limited to sales or uses by the inventor or one under the inventor's control, but may result from activities of a third party which anticipate the invention, or render it obvious.").

[1312]--On Sale--Generally

[1312.10]--Decisions Up to *Pfaff*

*In re Caveney*, 761 F.2d 671, 226 USPQ 1 (Fed. Cir. 1985)

SEPARATE ENTITY REQUIREMENT--SALE TO PARTIALLY-OWNED DISTRIBUTOR. An offer to sell to a distributor (i.e. to one other than an end user) may create an "on sale" bar. An offer must be to a separate entity. When company A owns 100% of company B and 49% of company C, an offer by company B to company C may create an "on sale" bar, especially in view of evidence that company C acted independently.

***King Instrument Corp. v. Otari Corp.***, 767 F.2d 853, 226 USPQ 402 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986), *appeal after remand*, 814 F.2d 1560, 2 USPQ2d 1201 (Fed. Cir. 1987)

ASSEMBLY DRAWINGS DATED JUST BEFORE CRITICAL DATE. The evidence indicated that assembly drawings, dated just prior to the critical date (one year prior to the filing of the application for the patent), were prepared from a complete device, thus supporting an inference that the machine, which was offered for sale prior to the critical date, had been sufficiently tested to constitute a reduction to practice.

***J.A. LaPorte, Inc. v. Norfolk Dredging Co.***, 787 F.2d 1577, 229 USPQ 435 (Fed. Cir. 1986)

SIGNING PURCHASE AGREEMENT--NO DELIVERY REQUIRED. An "on sale" bar may arise upon the signing of a purchase agreement and prior to actual delivery of a device because there is no requirement that a device be "on hand" and transferred at the time of the sale to invoke the bar, ... "

***Moleculon Research Corp. v. CBS, Inc.***, 793 F.2d 1261, 229 USPQ 805 (Fed. Cir. 1986), *cert. denied*, 479 U.S. 1030 (1987), *on remand*, 666 F. Supp. 661, 4 USPQ2d 1312 (D. Del. 1987), *rev'd*, 872 F.2d 407, 10 USPQ2d 1390 (Fed. Cir. 1989)

ASSIGNMENT OF PATENT RIGHTS. An oral agreement by the inventor to assign patent rights to his employer does not evoke the "on sale" bar.

**UMC Electronics Co. v. United States**, 816 F.2d 647, 2 USPQ2d 1465 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1025 (1988)

OFFER NOT ACCEPTED. "An offer to sell a later-claimed invention may be sufficient to invoke the bar whether the offer is accepted or rejected."

**Buildex Inc. v. Kason Industries, Inc.**, 849 F.2d 1461, 7 USPQ2d 1325 (Fed. Cir. 1988)

(1) JOINT DEVELOPMENT. The district court erred in failing to find that the invention of the patent in suit was "on sale" more than one year prior to the filing of the application for the patent. It also erred in holding that any offer for sale was excused by an asserted "joint development" exception to the "on sale" bar to patentability in 35 U.S.C. Section 102(b).

(2) At the request of a major customer, the patentee designed a certain hinge structure. Prior to the critical date, the patentee showed the customer a working model of the hinge and gave a quotation that included a quantity and price. The patentee agreed to file a patent application on the hinge and to sell the hinge exclusively to the customer. The customer agreed to pay for certain tooling expenses.

(3) FIRM OFFER TO SELL. "It is not necessary that a sale be consummated for the bar to operate. Even if no delivery is made prior to the critical date, the existence of a sales contract or the signing of a purchase agreement prior to that date has been held to demonstrate an 'on sale' status for the invention ... [N]o more than a firm offer to sell may be sufficient."

(4) The district court's determination that the sale offer from the patentee to the customer was not "outside the inventorship entity" was inconsistent with its determination that the patented invention was the sole invention of the patentee's employee.

(5) NO RIGID FORMULAE. "[T]his court has never recognized a 'joint development' exception to the 'on sale' bar. We have deliberately resisted rigid formulas and per se exceptions in applying § 102(b), instead considering the totality of the circumstances in each case."

(6) SALE TO EXCLUSIVE CUSTOMER. The exclusive selling arrangement between the patentee and its customer did not excuse the patentee's commercialization prior to the one year grace period. The patentee's goal was to make a profit. The policy behind Section 102(b) of not removing inventions from the public that the public has justifiably come to believe are freely available is implicated even though the invention was to be used exclusively by the customer. "The 'public' is not limited to ultimate users of the product, but includes manufacturers such as [the patentee's customer]."

(7) SEPARATE ENTITIES. "A sale or offer to sell must ... be between two separate entities."

**A.B. Chance Co. v. RTE Corp.**, 854 F.2d 1307, 7 USPQ2d 1881 (Fed. Cir. 1988)

SINGLE OFFER. "A single offer to sell is enough to bar patentability whether or not the offer is accepted."

**RCA Corp v. Data General Corp.**, 887 F.2d 1056, 12 USPQ2d 1449 (Fed. Cir. 1989), *cert. denied*, 484 U.S. 1025 (1989)

(1) As to the patentee's contention that a written proposal to sell a system did not disclose the claimed invention:



(a) ~~ADVERTISEMENT OR INVOICE - NO DETAILS~~. "[M]erely offering to sell a product by way of an advertisement or invoice may be evidence of a definite offer for sale or a sale of a claimed invention even though *no* details are disclosed."

(b) EVIDENCE CONNECTING OFFER TO CLAIMED INVENTION. "That the ~~offered product~~ in fact the claimed invention may be established by any relevant evidence, such as memoranda, drawings, correspondence, and testimony of witnesses."

(2) DEFINITE OFFER. "[W]here there is no sale, a definite offer to sell is an essential requirement of the on-sale bar ... ."

(a) INDEFINITE OR NEBULOUS DISCUSSION. "The requirement of a *definite* offer excludes merely indefinite or nebulous discussion about a possible sale."

(b) CONTRACT LAW. "While this requirement may be met by a patentee's commercial activity which does not rise to the level of a formal 'offer' under contract law principles, ... a definite offer in the contract sense clearly meets this requirement."

(3) "[T]he policies or purposes underlying the on-sale bar, in effect, define it."

***Envirotech Corp. v. Westech Engineering Inc.*, 904 F.2d 1571, 15 USPQ2d 1230 (Fed. Cir. 1990)**

(1) BIDDER'S SUBJECTIVE INTENT TO SUBSTITUTE INVENTION FOR PRIOR ART DESIGN. The district court erred in holding the patent in suit invalid because of an "on sale" bar. An "on sale" event does not arise when the inventors make a bid to supply a prior art design with a "subjective, uncommunicated, and ultimate intention" to seek permission to substitute their invention for the bid design.

(2) "Whether an invention is on sale is a question of law, and no single finding or conclusion is a *sine qua non* to its resolution."

(a) TOTALITY OF CIRCUMSTANCES. "The totality of the circumstances approach [to application of the on sale bar] is necessary because 'the policies or purposes underlying the on sale bar, in effect, define it.'"

(b) POLICIES. "These policies include discouraging removal of inventions from the public domain that the public reasonably has come to believe are freely available; favoring the prompt and widespread disclosure of inventions; allowing the inventor a reasonable amount of time following sales activity to determine the potential economic value of a patent; and prohibiting the inventor from commercially exploiting his invention beyond the statutorily prescribed time."

(3) The patent in suit relates to a ballasted sewage sludge fermentation tank digester cover.

(a) The covers float atop the tank's sludge to maintain a constant methane gas pressure. The covers include cylindrical sidewalls to which concrete blocks are attached to serve as ballast.

(b) A cover design objective is to increase the pressure differential between the cover as emerged and the cover as submerged. A greater differential means a higher pressure can be achieved with the same amount of concrete. Two prior art techniques were (i) use of low-density concrete ballast blocks, and (ii) a combination of blocks with an air-filled steel buoyancy ring.

(c) The inventors, employees of Envirotech, the assignee of the patent in suit, dubbed their invention a "hydroballaster". They attached tub-shaped blocks to the sidewalls. When submerged, the tubs weigh the same as a traditional block of equal concrete volume. When emerged, the blocks outweigh traditional blocks by the weight of the sludge filling the block cavity.

(4) The events giving rise to the alleged "on sale" bar were as follows:

(a) In December 1979, the city of Madison, Wisconsin, invited bids for a sewage plant expansion project. The assignee Envirotech submitted a proposal to the bidding general contractors to provide covers according to the project consulting engineer's specifications, which called for the prior art block-buoyancy ring combination.

(b) The engineer did not award the bids and scheduled a re-bid for May 8, 1980.

(c) The inventors conceived their invention after December 1979 and before May 8, 1980. They submitted a confidential "invention record" and "disclosure of invention" to Envirotech and its patent attorney. In a May 6, 1980 letter, the attorney said: "You mentioned that you were planning to bid and the bid would be the first offer for sale or public disclosure."

(d) Envirotech disclosed the inventors' idea to the engineer at an April 9, 1980 meeting but "kept the details of the design confidential." On April 28, 1980, Envirotech wrote to two concrete contractors seeking block fabrication quotations and enclosed a sketch of the invention design marked "confidential."

(e) Between May 5 and May 8, 1980, Envirotech submitted a second proposal to supply covers to all the general contractors re-bidding the mechanical portion of the contract, referencing the project engineer's specification. The low bidding general contractor accepted Envirotech's proposal.

(f) On May 30, 1980, Envirotech submitted a detailed description of the invention. On June 24, 1980, the general contractor submitted a cover purchase order to Envirotech, referencing the engineer's original specification. Envirotech accepted the order on August 25, 1980. On September 17, 1980, the engineer approved Envirotech's proposed substitution. On October 6, 1980, Envirotech notified the general contractor of the substitution.

(g) On May 29, 1981, the inventors applied for a patent, making May 29, 1980, the critical date for Section 102(b) bar purposes.

(5) None of the "on sale" bar policy considerations support application of the bar to the above circumstances.

(a) PUBLIC UNDERSTANDING. "First, the 'public', that is, [the general contractors to whom the patentee submitted its proposal] could not have come to believe that the [the invention] was freely available based upon that proposal."

(i) The district court's findings suggest that "neither [the engineer] nor [the general contractor] was sufficiently aware of the [invention] to justifiably believe that it was freely available."

(ii) "[B]ecause the court based its invocation of the on sale bar specifically on [the patentee's] offer to sell the [invention] to [the general contractor who successfully bid on a project], its finding that [the patentee] had 'described its idea' for the [invention] to the [project's] consulting engineer ... prior to the critical date does not support its conclusion."

(iii) "Even if [the project engineer] had known how the invention would perform, in the absence of any relationship or evidence of communication between [the engineer] and [the general contractor], that fact would be insufficient to establish that [the patentee] offered the invention [to the general contractor]."

(b) INVENTOR'S KNOWLEDGE THAT INVENTION WOULD PERFORM. That the patentee knew how the invention would perform as of the date it submitted its proposal is "not dispositive."

(i) "Knowing how an invention will perform is not the same as offering or intending to offer it for sale."

(ii) "The district court did not find that [the patentee] either intended to or did offer the [invention] in its [pre-critical date] proposal."

(iii) "[W]hile we agree that the policies underlying the on sale bar concentrate on the inventor's attempt to exploit his invention rather than the potential purchaser's cognizance of it, ... the inventor's attempted exploitation must be objectively manifested as a definite sale or offer to sell the invention. The subjective, uncommunicated, and ultimate intention of the offeror, however clear, is not alone sufficient."

(c) ATTEMPT TO SUBSTITUTE INVENTION FOR SPECIFIED PRIOR ART DESIGN. The patentee admitted that it decided, prior to submitting its proposal, to attempt to substitute its invention for the project engineer's design--but only if it received the contract. It bid the engineer's design but quoted the invention's lower price. The patentee's assumption of the risk that the engineer might disapprove its proposed substitution did not negate the fact that it remained obligated by the contract to provide the engineer's design to the general contractor.

(6) RCA DISTINGUISHABLE. The case at bar is distinguishable from *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 12 USPQ2d 1449 (Fed. Cir. 1989).

(a) "Here, the bid documents clearly specify the [prior art] design rather than the patented invention; there, they contained a technical description sufficient to identify the patented invention."

(b) "Here, ... [the patentee] planned in its ... proposal to keep the patented design ... confidential ... there, testimonial evidence established that the offeror intended to offer the invention prior to the critical date."

(7) The general contractor who accepted the patentee's proposal understood that the proposal offered the project engineer's prior art design.

(a) PURCHASER'S KNOWLEDGE OF INVENTION. "While there is no requirement that the purchaser have actual knowledge of the invention to invoke the on sale bar, ... what the purchaser reasonably believes the inventor to be offering is relevant to whether, on balance, the offer objectively may be said to be of the patented invention."

(b) DISCLOSURE IN CONFIDENCE. That the patentee disclosed in confidence sketches of the invention to potential suppliers is insufficient to show that the patentee similarly disclosed the invention to the general contractor.

(8) ATTORNEY'S CHARACTERIZATION OF PROPOSAL AS BAR EVENT. The patentee's attorney's letter to the two inventors stating that the proposal would be the 'first offer for sale' is not conclusive.

(a) There is no evidence the attorney was familiar with the terms of the patentee's proposal.

(b) Because there is no evidence that "the inventors themselves were responsible for formulating or submitting [the] proposal [of their assignee, the patentee], their knowledge of counsel's opinion is not evidence of whether [the patentee] intended to offer the [invention] in its ... proposal."

***Sonoscan, Inc. v. Sonotek, Inc.*, 936 F.2d 1261, 19 USPQ2d 1156 (Fed. Cir. 1991)**

(1) PRE-CRITICAL DATE PRICE QUOTATIONS. The district court correctly concluded that the patented invention was invalid because of a Section 102(b) on sale bar. The inventor's assignee's pre-critical date price quotations offered the patented invention.

(2) The patent in suit relates to scanning acoustic microscopes, quality-control instruments that non-destructively test items such as capacitors and integrated circuits.

(a) In 1986 and 1987, Sonoscan quoted prices for a model 3100 "C-Mode Scanning Acoustic Microscope": November 18, 1986 (to IBM for \$123,500), September 10, 1987 (to IBM for \$128,500), and September 18, 1987 (to Amdahl for \$128,500).

(b) On September 15, 1988, Sonoscan filed an application for a patent on a scanning acoustic microscope. In the patent that later issued, claim 1 required, inter alia, a "display means ... for displaying a unified image."

(c) The invention's "most important feature ... is the capability of displaying amplitude and polarity data on an object in the same, or unified, image."

(3) CRITICAL FEATURE OFFERED. The pre-critical date price quotations did not refer to the unified image feature, but "the totality of the evidence ... justified the district court's conclusion that the invention of the patent was on sale."

(a) The patentee's counsel admitted that if IBM had placed an order, the patentee would have delivered a machine with the unified image capability.

(b) The offered model number (3100) was the same as that offered to Amdahl just after the critical date, which "unquestionably comprised all the features of the claimed microscope," was at the same price, and embodied "no serious change in the invention."

***Intel Corp. v. U.S. Int'l Trade Comm'n*, 946 F.2d 821, 20 USPQ2d 1161 (Fed. Cir. 1991)**

(1) SAMPLES TO SALESPERSONS--NO ACTUAL OFFER. No "on sale" bar arose when the patentee distributed sample products to its salesman before the critical date. There was no clear and convincing evidence that the salesmen actually offered or delivered products to customers before the critical date.

(2) PREPARATION FOR SALE. "It is not a violation of the on-sale bar to make preparations for the sale of a claimed invention--an actual sale or offer to sell must be proved."

(3) The patent related to EPROM memory chips.

(a) Intel, the inventors' assignee, distributed 50 sample chips embodying the invention to 50 Intel salesmen at a May 1984 sales conference. It placed no restrictions on the chips' disposal, and salesmen "were expected to pass the samples on to their customers."

(b) Intel filed a patent application claiming the invention on June 7, 1985, making the critical date June 7, 1984.

(c) The ALJ found that (i) the samples were pre-production engineering samples that were not available for sale, (ii) Intel's intent was "clearly commercial" and, if it were clear that the salesmen distributed the samples before the critical date, there would be an on sale bar, but (iii) the respondents "did not prove by clear and convincing objective evidence that any of [the] customers in fact received the part before June 7."

(4) To conclude that samples were actually sold or offered before the critical date would require drawing "extensive inferences", which is inconsistent with the clear and convincing evidence proof standard.

***Continental Can Company USA, Inc. v. Monsanto Co.*, 948 F.2d 1264, 20 USPQ2d 1746 (Fed. Cir. 1991).**

(1) **MANUFACTURER-CUSTOMER DEVELOPMENT PROJECT.** A device produced as part of a terminated manufacturer-customer development project and "cloaked in confidentiality" was not "on sale".

(2) Admiral plastics entered into an agreement with Coca-Cola to develop a suitable plastic bottle.

(a) The agreement provided that Admiral Plastics and Coca-Cola would test the bottles and, if they were satisfactory, Admiral would manufacture and sell them to Coca-Cola. The agreement stated minimum commercial quantities and maximum commercial prices.

(b) Admiral produced a number of bottle shapes, including the "Marcus" bottle. Two years later, Coca-Cola terminated the agreement because mechanical performance requirements were not met.

(c) The district court recognized that "all technical difficulties were not resolved and that no sales were ever made" but held that the Marcus bottle was "on sale".

(3) **PARTICIPATION BY INTENDED CUSTOMER.** "[T]he 'on sale' bar of § 102(b) does not arise simply because the intended customer was participating in development and testing."

(a) In *Baker Oil Tools, Inc. v. Geo Vann, Inc.*, 828 F.2d 1558, 1563-65, 4 USPQ2d 1210, 1213-15 (Fed.Cir. 1987), "this court summarized various factors pertinent to the 'on sale' bar when there is an issue concerning the relationship between the patentee and the customer, for example, whether there was a need for testing by other than the patentee; the amount of control exercised; the stage of development of the invention; whether payments were made and the basis thereof; whether confidentiality was required; and whether technological changes were made."

(b) "All of the circumstances attending the relationship must be considered in light of the public policy underlying § 102(b)."

(c) "Although Admiral Plastics' hope was surely commercial sales, and the record shows that prices and quantities were discussed, this does not of itself place the subject matter 'on sale' in the sense of § 102(b)."

(d) "The Marcus bottle was part of a terminated development project that never bore commercial fruit and was cloaked in confidentiality."

(e) **DEVELOPMENT-SALE LINE NOT ALWAYS BRIGHT.** "While the line is not always bright between development and being on sale, ... in this case the line was not crossed. The 'on sale' bar is measured by 'the time the public came into possession of the invention' ... ."

***Atlantic Thermoplastics Co., Inc. v. Faytex Corp.***, 970 F.2d 834, 23 USPQ2d 1481 (Fed. Cir. 1992), *rehe'g in banc denied*, 974 F.2d 1279, 23 USPQ2d 1801, 974 F.2d 1299, 24 USPQ2d 1138 (Fed. Cir. 1992) (RADER, concurring; NIES, dissenting; RICH, dissenting; NEWMAN, Rich & LOURIE dissenting; LOURIE, Rich & Newman dissenting)

(1) The district court determination that the patent in suit was not invalid under Section 102(b)'s on sale bar is remanded because it failed to provide any findings of fact or analysis for its conclusion and it "apparently assumed, incorrectly, that mere offers do not trigger the on-sale bar rule."

(2) The district court's sole finding was the conclusory statement: "[Atlantic's] first offer to sell and a definite sale were made to Triangle Corporation after October 9, 1984 in January of 1985, as the invention was not commercially marketable before that time."

***KeyStone Retaining Wall Systems, Inc. v. Westrock, Inc.***, 997 F.2d 1444, 27 USPQ2d 1297 (Fed. Cir. 1993)

(1) An invention may be found to have been on sale, if there was a sale or offer to sell prior to the critical date. ... An on sale bar determination requires that the claimed invention asserted to be on sale was operable, the complete invention claimed was embodied in or obvious in view of the device offered for sale, and the sale or offer was primarily for profit rather than for experimental purposes."

(2) NO SUMMARY JUDGMENT--DISPUTE WHETHER CLAIMED INVENTION WAS OFFERED. Summary judgment invalidating a patent because of an on sale bar was improper because there was a disputed material issue of fact--"whether an embodiment of the claimed invention was offered for sale prior to the critical date."

(3) KeyStone's patent concerned "a retaining wall structure made from a plurality of interlocked wall blocks, in which soil stabilizing (geo-grid) fabric ... is connected to the wall structure by means of pins that interconnect and align the blocks."

(a) In April 1986, before the critical date, KeyStone offered to sell a retaining wall to the city of Egan, Minnesota but disputed whether the offer included the claimed invention, "which require[d] that geo-grid be anchored to the assembled blocks by connection pins ... ."

(b) Before making the project offer, the inventor, KeyStone president Forsberg, retained a consulting engineer, Kliethermes, to do a structural analysis of the wall system.

(c) Forsberg testified that in early April 1986 he first conceived of attaching geo-grid to retaining wall blocks with pins and asked Kliethermes whether the wall system's pins would fit through geo-grid. Kliethermes advised Forsberg that they would.

(d) On April 18, 1986, Kliethermes submitted a design analysis that "did not explicitly state that the pins would anchor the geo-grid, but stated that '[t]he KeyStone units are attached to a soil reinforcement fabric ...'." "The April 18 analysis was referenced in a drawing that was delivered to the city's engineering firm." On April 29, Kliethermes prepared a subsequent analysis, which did not refer to the geo-grid pin connection.

(4) The district court erred in granting summary judgment finding an on sale bar because the patentee submitted sufficient evidence to establish a genuine issue of material fact.

(a) The patentee's evidence showed that "the inventor, Forsberg, directed Kliethermes to perform a feasibility analysis, using geo-grid attached to the connecting pins, that Kliethermes did not believe that the pin connection was necessary, and that there were other ways to attach the geo-grid to the blocks."

(b) It showed that "nothing in the April 18 analysis required the use of pins for attaching the geo-grid; the analysis only determined whether 'the pin diameter [was] sufficient to withstand the shear force exerted by the geo-grid if the geo-grid were hooked over the pins.' "

(c) In a deposition, the city's engineer testified "that he did not know what system of attachment was to be used by KeyStone."

**Ferag AG v. Quipp Inc.**, 45 F.3d 1562, 33 USPQ2d 1512 (Fed. Cir. 1995), *cert. denied*, 516 U.S. 816 (1995)

(1) **SALE TO EXCLUSIVE DISTRIBUTOR--DECISION TO SUPPLY INVENTION TO FILL ORDER.** The patent in suit was invalid because of an "on sale" bar. The patentee's sale to its exclusive U.S. distributor was a bar because the patentee owned only 50% of the distributor and shared control with the other owner. A sale agreement between the distributor and a customer, which did not identify the invention, was a bar because, by the time the distributor sent the customer an order confirmation, which was before the critical date, the patentee and distributor had decided to supply the patented product.

(2) The patent in suit related to a conveyor apparatus for publishing industry mail rooms.

(a) **SHARED CONTROL OF PATENTEE'S U.S. DISTRIBUTOR.** Before March 1979, Ferag, a Swiss corporation, owned all 100,000 shares of the stock of its United States exclusive distributor, Ferag, Inc. In March 1979, it sold an additional 100,000 shares to Robert Smallacombe, who became chief executive officer of Ferag, Inc. An additional 1000 shares were placed in a voting trust with trustees appointed by Ferag and Smallacombe. An operations agreement gave Smallacombe management authority over Ferag Inc. but allowed Ferag to veto certain personnel decisions.

(b) **PARTNERSHIP WITH CUSTOMER.** In March 1979, Ferag and Ferag, Inc. entered into a "Partnership Agreement" with Bergen, a New Jersey newspaper publisher. Ferag would provide a Ferag system for Bergen's facility. "The agreement did not provide specific operational details about the systems, but it did spell out general performance criteria. ... Finally, the parties noted 'the experimental nature of the undertaking', and, in a handwritten addendum, recognized the confidential price concessions granted by Ferag 'for the purpose of providing a "showplace" in the United States.' " In June 1979, Ferag, Inc. and Bergen entered into an Equipment Sales Agreement, incorporating the Partnership Agreement by reference.

(c) In July 1979, Ferag began development work on a new system, which became the subject of the patent in suit.

(d) On November 23, 1979, Ferag sent Ferag, Inc. a document confirming an order for a system destined for Bergen, which specified "EP-1" and "EP-2" conveyors as later claimed in the patent. The order had a provisional price and 1980 delivery dates.

(e) Ferag filed its application for the patent in suit on January 15, 1981.

(f) In an infringement suit, the district court rejected the accused infringer's argument that the Ferag-Ferag, Inc. transaction was a barring sale, reasoning that Ferag, Inc. was not an entity separate from Ferag. It rejected the accused infringer's argument that the Bergen sale contract was a bar, reasoning that there was no proof that the product sold embodied the patented invention.

(3) **NO FACTOR CONTROLLING--FOREMOST POLICY: PREVENT INVENTORS FROM COMMERCIALY EXPLOITING INVENTION WHILE DELAYING BEGINNING OF STATUTORY TERM.** "While a wide variety of factors may influence the on sale determination, no single one controls the application of section 102(b), for the ultimate conclusion depends on the totality of the circumstances. ... The underlying policies are what drives the section 102(b) analysis. ... Foremost among these is the policy of preventing inventors from exploiting the commercial value of their inventions while deferring the beginning of the statutory term. ... To this end, the inventor is strictly held to the requirement that he file his patent application within one year of any attempt to commercialize the invention. The demands of this policy must be weighed with the sometimes inconsistent goals of encouraging prompt and widespread disclosure of inventions to the public, discouraging the removal of inventions from the public domain when the public has come to rely on their ready availability, and giving inventors a reasonable period to discern the potential value of an invention."

(4) **THE MANUFACTURER-DISTRIBUTOR TRANSACTION.** "Because [the patentee] Ferag could not control [its distributor] Ferag, Inc.'s marketing of the invention, the two companies were separate entities for section 102(b) purposes and the transaction between them gives rise to a statutory bar."

(a) "A section 102(b) sale or offer must involve separate entities. *In re Caveney*. ... Where ... the parties to an alleged sale are related, it is more difficult to determine whether the inventor is attempting to commercialize his invention; accordingly, in such cases whether there is a statutory bar depends on whether the seller so controls the purchaser that the invention remains out of the public's hands."

(b) The even stock split "suggests shared control of Ferag, Inc., not control by Ferag or Ferag's owners. The terms of the agreements between Ferag and Smallacombe also reflect shared control. Ferag gave Smallacombe 'complete management authority over the operations of [Ferag, Inc.]' ... A requirement of mutual consent in a few limited circumstances, not implicated here, cannot change 'complete management authority' to control by Ferag."

(c) "[T]he clause requiring Ferag, Inc. to use its best efforts to sell and service Ferag products and not to sell competing products", "Ferag, Inc.'s obligation to protect the confidentiality of Ferag's research and development information", and "Ferag's 'ability to control critical materials and products' " "prove only that Ferag, Inc. was an exclusive distributor of Ferag products."

(5) **CUSTOMER KNOWLEDGE--PATENTEE INTENT TO SELL INVENTION.** "The sale of a Ferag system to Bergen ... independently supports the conclusion that Ferag had placed the invention on sale before the critical date."

(a) In reasoning that "[t]he patent owner must have had an intent to sell the invention prior to the bar date and that intent must be communicated to the public for the purposes of eliciting a sale prior to the bar date", the district court applied "the wrong legal standard" and "misread *Envirotech [Corp. v. Westech Engineering]*."

(b) "[T]he overriding focus of section 102(b) is preventing inventors from reaping the benefits of the patent system beyond the statutory term. ... Accordingly, while what an offer or sale discloses to the public may tend to show whether the invention was on sale, the question is not whether the public knew of the invention, but whether the product sold or offered embodies the invention claimed. ... Indeed, an offer or sale may invoke the statutory bar 'even though no details are disclosed.' "

(c) **ENVIROTECH.** "Rejecting the district court's reliance on uncommunicated intent, we observed that Envirotech's bid documents specified the prior art design, and not the patented invention. Had the contractor chosen to refuse the suggested substitution, Envirotech would have been compelled to provide the prior art [design]."



(d) "The key question in *Envirotech*, and in the case before us today, is whether, under the totality of the circumstances, the inventor placed his invention on sale, objectively manifested by a sale or offer for sale of a product that embodies the invention claimed in the patent. We emphasize that this is an objective test, and that at its heart lies the inventor's attempt to commercialize the invention. The district court mistakenly relied on the seller's intent and the purchaser's understanding. But the measure of the bar is what was offered, not the patentee's intent. *Envirotech* recognized this, and turned on the determination that *Envirotech*'s proposal offered only the prior art design."

(e) "It may be true that no one at Bergen knew that Ferag would supply a conveyor system within the claims of the patent, but here that lack of knowledge cuts in the opposite direction it did in *Envirotech*. There, the purchaser understood the proposal to specify the prior art ... design. That understanding was some evidence to support the conclusion that *Envirotech*'s offer encompassed the prior art design. Here, Bergen may not have known that Ferag would supply the patented grippers, but neither did it have reason to expect to receive an old gripper design. This tells us nothing about what Ferag offered to Bergen. Accordingly, we must look elsewhere for objective evidence of what the subject matter of the Bergen sale was."

(f) "The March partnership agreement reveals Ferag's plan to showcase its new products at the Bergen facility. Its terms clearly include a contract for sale of a conveyor system, but it is not clear just what conveyor Ferag would supply. Indeed, ... Ferag had not even begun development of the patented conveyor by that time. But the agreement did set forth functional specifications that the conveyor would meet. An existing prior art conveyor could have met these specifications, but the claimed conveyor, when it was developed, met them as well. What is clear, based on the November order confirmation, is that by November of 1979 Ferag had decided to supply the patented conveyor pursuant to its agreements with Bergen."

***In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation*, 71 F.3d 1573, 37 USPQ2d 1138 (Fed. Cir. 1995)**

(1) **SHAM SALE OF PROTOTYPES TO PRESERVE EXCLUSIVE LICENSE.** A sham sale of a two unmarketable prototypes, which a licensee arranged in order to preserve its license rights, did not place the invention "on sale" because (a) there was no commercialization, (b) the sale did not put the invention in the public domain, and (c) the transaction did not impermissibly extend the one-year Section 102(b) grace period.

(2) The patent concerned double lumen catheters.

(a) On February 1, 1982, the inventor granted an exclusive license to Quinton. The license provided that exclusivity would end if the licensee did not market the catheters by September 20, 1982.

(b) By August 1982, the licensee had not yet made any sales of catheters "purportedly due to its inability to make the catheters in accordance with Mahurkar's specifications."

(c) The licensee's chief executive office persuaded a friend at a kidney dialysis center to purchase 20 catheters "as a personal favor." The center paid for two catheters on August 31, 1982. The catheters were "stored ... in a cabinet where they remained, unused, as of the commencement of this litigation. The catheters had a number of serious defects, which would have increased the risk of injury to patients using the catheters for dialysis."

(d) The inventor protested to the licensee that the transaction was a sham, but the parties settled their differences.

(e) The inventor filed the application for the patent on October 3, 1983, more than one year after the arranged sale to the dialysis center.

(3) NOT EXPERIMENTAL. The district court found that the arranged sale "was a sale under contract law (the Uniform Commercial Code) for nonexperimental purposes" but nevertheless held that it did not place the invention on sale.

(4) NO MECHANICAL RULE--POLICIES. "[W]hether a device has been placed on sale is not subject to a mechanical rule. ... On the contrary, the on-sale determination depends on the totality of the circumstances, considered in view of the policies underlying section 102(b). ... These policies include: (1) discouraging removal of inventions from the public domain that the public reasonably has come to believe are freely available; (2) encouraging the prompt and widespread disclosure of inventions; (3) allowing an inventor a reasonable amount of time following sales activity to determine the potential economic value of a patent; and (4) prohibiting an inventor from commercially exploiting his invention beyond the statutorily prescribed time."

(5) CENTRAL FOCUS: COMMERCIALIZATION. "[C]ommercialization is the central focus for determining whether the patented invention has been placed on sale. ... Because we conclude that [the licensee's] sale to [the kidney center] was a sham that did not result in 'commercialization' of the invention or place it in the public domain, no § 102(b) sale occurred even though the prototype was a reduction to practice of the invention."

(6) NO ADVERTISING--SPECIAL DEAL--UNMARKETABLE PROTOTYPES. "[N]o commercialization took place here. [The licensee] did not advertise the catheters, nor offer them to anyone but [the friend at the kidney center] prior to the critical date. The ... transaction was a special deal made in an attempt to satisfy the requirements of a licensing agreement, not a sale made on ordinary commercial terms. [The inventor] did not believe that [the licensee] had a marketable product that could be offered to customers. Consequently, [the inventor] protested that the 'sale' was a sham transaction that did not satisfy the requirements of the licensing agreement. [The center] bought the catheters outside of the usual channels, as a favor to [the licensee] rather than as an ordinary commercial purchase. Moreover, the catheters were unusable for their intended purpose by anyone who followed the instructions included with the catheters."

(7) PUBLIC DOMAIN. "The other policies also suggest that the [sham] transaction was not a § 102(b) sale. The sale of two prototype catheters to [the center] did not place the invention in the public domain or lead the public to believe that the device was freely available. No members of the public outside of [the center] were likely aware of the transaction at all. If they had been aware, the circumstances of the transaction indicated that it was a sham transaction designed to satisfy a licensing agreement, rather than an ordinary commercial sale that would indicate that the invention was in the public domain."

(8) NO SALES ACTIVITY TO DETERMINE VALUE OF PATENT. "That the [sham] transaction was not a § 102(b) sale is also consistent with encouraging the prompt and widespread disclosure of inventions and allowing an inventor a reasonable amount of time following sales activity to determine the potential value of a patent. The ... transaction was not 'sales activity' that helped the inventor determine the value of a patent. Selling two unmarketable prototypes with instructions that made them unusable could not provide information as to the value of a patent. This suggests that the transaction did not impermissibly extend the one-year period allowed for inventors to evaluate the value of a patent before filing an application."

***Seal-Flex, Inc. v. Athletic Track and Court Construction***, 98 F.3d 1318, 40 USPQ2d 1450 (Fed. Cir. 1996)

(1) BALANCE--ASCERTAIN COMMERCIAL VALUE, PROMPT ENTRY INTO PATENT SYSTEM. "The on-sale bar of § 102(b) represents a balance of the policies of allowing the inventor a reasonable amount of time to ascertain the commercial value of an invention, while requiring prompt entry into the patent system after sales activity has begun. ... Thus the statute limits the period of commercial sale or offers of sale of an invention to one year, before the patent application must be filed or be forever barred."

(2) "The law of § 102(b) is an implementation of the policy that if a patent is to be sought it must be applied for within a reasonable time after a completed invention has been placed in commerce."

***Micro Chemical, Inc. v. Great Plains Chemical Co., Inc.***, 103 F.3d 1538, 41 USPQ2d 1238 (Fed. Cir. 1997)

MAYER, dissenting: "The fact that [the inventor] did not describe his apparatus to [the offeree] beyond saying that it was a weigh machine more accurate than his volume machines, and the fact that [the offeree] did not understand how the invention worked, are ... uninformative. In this case, a proper section 102(b) analysis does not focus on the purchaser's knowledge of details about the apparatus or how it works. ... Where the purchaser understands generally how an apparatus would perform, detailed knowledge is even less determinative."

*Hupp v. Siroflex of America, Inc.*, 122 F.3d 1456, 43 USPQ2d 1887 (Fed. Cir. 1997)

(1) SUBMISSION OF INVENTION TO INVENTION SUBMISSION COMPANY. "[O]rganizations that invite inventors to submit their ideas in order to obtain patent services and assistance in development and marketing are not ordinarily 'customers' whereby contact with such an organization raises the on-sale bar. An inventor's quest for aid and advice in developing and patenting an invention is not an on-sale event as contemplated by 35 U.S.C. § 102(b)."

(2) There was no substantial evidence to support a jury's verdict that a design patent, which claimed a mold for simulating a stone pathway in concrete, was invalid as "on sale" more than a year before the patentee's applied for the patent.

(3) "[E]vidence was presented concerning [the patentee's] submission to the Invention Submission Corporation of sketches of various proposed mold designs, some of which appear in the ... patent. Although it was debated at trial whether and what was submitted and when, the jury could have found, as a matter of credibility, that the submission was made and that this event took place more than a year before the patent's filing date."

(4) "The jury instructions described the on-sale bar as arising from 'an offer for sale of the design of the design patent.' ... The jury's 'yes' can not be supported on this ground."

*Pfaff v. Wells Electronic, Inc.*, 124 F.3d 1429, 43 USPQ2d 1928 (Fed. Cir. 1997), *aff'd*, 525 U.S. 55, 48 USPQ2d 1641 (1998)

(1) "The relevant inquiry is whether there was a definite sale or offer for sale of the claimed invention prior to the critical date, defined as one year prior to the U.S. filing date to which the application was entitled."

(2) FOREMOST PURPOSE: PREVENT COMMERCIAL EXPLOITATION WHILE DEFERRING BEGINNING OF STATUTORY TERM. "The foremost purpose of the on-sale bar is to 'prevent [] inventors from exploiting the commercial value of their inventions while deferring the beginning of the statutory term.' *Ferag AG v. Quipp Inc.* ... (Fed. Cir. 1995). Thus, in making the determination as to whether the invention was 'on sale,' "[a]ll of the circumstances surrounding the sale or offer to sell, including the stage of development of the invention and the nature of the invention, must be considered and weighed against the policies underlying section 102(b)." *Micro Chem., Inc. v. Great Plains Chem. Co.* ... (Fed. Cir. 1997) (quoting *UMC* ...)."

*Evans Cooling Systems, Inc. v. General Motors Corp.*, 125 F.3d 1448, 44 USPQ2d 1037 (Fed. Cir. 1997)

(1) THIRD-PARTY MISAPPROPRIATION CAUSING "ON SALE" BAR. "[W]e decline to create an exception to the on sale bar for those instances in which a third party misappropriates the invention and later places the invention on sale or causes an innocent third party to place the invention on sale. ..."

(a) "[W]here there is a specific and definite offer for sale of a successfully tested device, such as that evidenced by a completed contract for sale, that embodies every limitation of the later patented invention as claimed prior to the critical date and that sale is clearly for commercial purposes, the analysis need not go any further."

(b) "It is not that the totality of the circumstances test is not to be applied in such a case, but that there are then no circumstances, short of fraud or duress, that could turn such an offer into something other than a barring event."

(c) ILLEGAL OR INEFFECTIVE OFFERS. "[T]he mere fact that the offer for sale was illegal or ineffective does not remove it from the purview of the section 102(b) bar."

(2) The patent concerned an aqueous reverse flow cooling system for internal combustion engines.

(a) The inventor-patentee Evans conceived the invention in 1984, reduced it to practice in 1986, and filed a patent application for it on July 1, 1992.

(b) Before the July 1, 1991, critical date, the accused infringer, General Motors (GM) and its dealers accepted orders, including one by a retail customer, Najarian, for a 1992 model year Corvette with an LT1 engine.

(c) The inventor-patentee asserted that (i) the LT1 engines infringed his patent, and (ii) GM should not be able to invalidate the patent because it "stole the invention from" him after a 1989 demonstration.

(d) The inventor did *not* argue that (i) the LT1 engine was not substantially complete, or (ii) the sales were for a non-commercial purpose.

(3) "In order for a patent to be invalid under this statute, the claimed invention asserted to have been on sale must be substantially completed with reason to expect it would work for its intended purpose, ... must have been embodied in or obvious from the device offered for sale, and the sale must have been primarily for profit. ..."

(4) ALLEGED INFRINGING DEVICE "ON SALE"--BURDEN OF PROOF. The patentee argued that by denying infringement GM admitted, or, at least, created a fact issue, that the 1992 Corvette's engine did not anticipate the patent's claims. "We do not agree."

(a) "This is not the typical case where the patentee has placed some device on sale prior to the critical date and the accused infringer must demonstrate that this device actually embodied or rendered obvious the patented invention."

(b) ALTERNATE PLEADING. "Here, the entire basis of the lawsuit is Evans'--the patentee's--contention that the LT1 engine--the device that was put on sale--contains a cooling system that infringes. GM denied that the LT1 engine infringed the ... patent but, by conceding infringement for purposes of the summary judgment motion and its on sale defense, properly pled in the alternative. See Fed. R. Civ. P. 8(e) (1997) ('A party may set forth two or more statements of a claim or defense alternatively or hypothetically, either in one count or defense or in separate counts or defenses.')."

(c) "Although GM bore the burden of proving that the LT1 engine embodied the patented invention or rendered it obvious for purposes of the summary judgment motion, this burden is met by [the patentee's] allegation, forming the sole basis for the complaint, that the LT1 engine infringes. Indeed, even on appeal, [the patentee] states in its brief, directed only to the on sale issue, that 'GM uses an aqueous reverse flow cooling system in its LT1 engine.' "

(5) DEFINITE OFFER--TOTALITY OF CIRCUMSTANCES. "[W]e hold that the order entered into by [the retail customer] Mr. Najarian and [the defendant's dealer] Jack Cauley Chevrolet on June 13, 1991--nearly a month prior to the critical date--evidences an effective offer for sale that invalidates the--patent."

(a) ~~ADVANCE, NON-BINDING CANCELABLE ORDER.~~ The patentee "argues that, based on the totality of the circumstances, a reasonable jury could conclude that 'the Najarian "order" was an advance, non-binding order, cancelable by either party, that was not finalized until after July 1, 1991' and that it was void to the extent that it was an offer for sale."

(b) "We have often stated that the totality of the circumstances and the policies underlying the bar must be considered in determining whether a definite offer for sale triggering section 102(b) has been made."

(c) A specific, definite offer for sale of a successfully tested device for commercial purposes is a barring event absent "fraud or duress."

(d) OTHER CIRCUMSTANCES. "Even if we were otherwise to consider the totality of the circumstances, [the patentee's] relevant arguments on this point are easily discarded."

(i) GOVERNMENT RESTRICTIONS. The patentee "argues that Mr. Najarian's order is ineffective as a sale because it stated that '[a]ny provisions of this order prohibited by Michigan or Federal law shall be ineffective to the extent of such prohibition' and the Federal Fuel Economy Regulations and the Clean Air Act prohibited any offer for sale as of this date because GM had not yet received fuel economy labels or a Certificate of Conformity from the EPA."

(ii) "Even assuming this to be the case, the mere fact that the offer for sale was illegal or ineffective does not remove it from the purview of the section 102(b) bar. Jack Cauley Chevrolet thought it was offering to sell a 1992 Corvette to Mr. Najarian and Mr. Najarian thought he was agreeing to buy such a car. Moreover, there is no evidence that Mr. Najarian did not receive the car or that the offer was actually invalidated."

(iii) UNRESOLVED PRICE OR COLOR. "[N]either the fact that the price was not firm nor that the color had not been chosen avoids the section 102(b) bar. [The buyer] Mr. Najarian was given an estimated price range and it is not uncommon for car buyers to change their minds about the desired color."

(iv) CANCELABLE OR CHANGEABLE. "[T]he fact that the contract was cancelable or changeable under certain circumstances does not mean that it does not evidence a definite offer for sale."

(v) VIOLATION OF INTERNAL PROCEDURES. "[E]ven if the independent dealership violated internal procedures by offering the 1992 Corvette for sale prior to the model announcement date GM had set, this does not make the offer for sale any less an offer."

(6) CIRCULATION OF ORDER GUIDE. "Although GM also argues that the ... patent is invalid because GM placed the reverse flow cooling system in its engines on sale when it sent the Order Guide and supplemental information brochure to its dealers across the country in late April or early May of 1991, we do not reach or decide that issue here. See *Intel Corp. v. International Trade Comm'n* ... (Fed. Cir. 1991) ('A single sale or offer to sell is enough to bar patentability.')."

(7) NEW EXCEPTION? "Although our analysis would normally be complete once we had concluded there was an invalidating offer for sale, [the patentee] urges this court to create a new exception to the on sale bar. Specifically, Evans asks us to rule that an otherwise invalidating offer for sale does not invalidate a patent 'where a third party surreptitiously steals an invention while it is a trade secret and then, unbeknownst to the inventor, allegedly puts the invention on sale [more than one year] before the inventor files a patent application covering the stolen invention.'"

(a) **THREE SUPREME COURT CASES.** The patentee "cites three Supreme Court cases and asserts that they state that prior use of an invention by one who misappropriates the invention cannot invalidate a patent. *See Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 19-20 ... (1829) ('[i]f before his application for a patent his invention should be pirated by another, or used without his consent; it can scarcely be supposed, that the legislature had within its contemplation such knowledge or use. ... The use here referred to has always been understood to be a public use, and not a private or surreptitious use in fraud of the inventor.'). *Shaw v. Cooper*, 32 U.S. (7 Pet.) 292, 319-20 ... (1833) ('But there may be cases, in which a knowledge of the invention may be surreptitiously obtained, and communicated to the public, that do not affect the right of the inventor ... . If the right were asserted by him who fraudulently obtained it, perhaps no lapse of time could give it validity.'). *Kendall v. Winsor*, 62 U.S. (21 How.) 322, 329 ... (1859) (affording immunity from suit to prior third party users of a patented invention but refusing to extend such immunity to those who received knowledge of the patented invention through fraud)."

(b) **MARTIN.** The patentee "argues that these Supreme Court cases have never been expressly overruled and, in fact, the one time the Court of Customs and Patent Appeals addressed the issue it expressly left it open, stating:

'We do not find it here necessary to decide whether a fraudulent use of an invention for more than two years [then the bar period] prior to an application for a patent therefor bars the issue of the patent upon such application ... . It may be that ... said Minerals Separation should have been held to be estopped to bring a public use proceeding. But even so, as to this we express no opinion ...

*In re Martin*, ... 74 F.2d 951, 955-56 (CCPA 1935)."

(8) "[W]e decline to create the suggested new exception to the 102(b) bar which has no basis in the language of the statute.

(a) "We ... do not find any of these cases dispositive of the issue presented by this case."

(i) "In *Pennock*, the Supreme Court actually invalidated the patents in suit under the public use bar, and in that case the use had been with the permission of the patentee, thereby rendering any statements regarding piracy mere dicta."

(ii) "Likewise, the statements ... in *Shaw* are dicta, as there too the patent was invalidated because the innocent public had come to know and use the invention, although there was some evidence that the invention had first become known to the public by fraudulent means."

(iii) "The statutory on sale bar wasn't even in issue in *Kendall*. Rather, the issue was whether the defendant had the right to continue to use the invention after the patent issued. *See also Eastman v. Mayor of N.Y.*, 134 F. 844, 852-55 (2d Cir.1904) (discussing whether 'fraudulent, surreptitious, or piratical' use of an invention could raise the public use bar and rejecting statements in above Supreme Court cases as dicta)."

(b) **LORENZ.** "[T]he one other court that has addressed this precise issue has rejected arguments similar to [the patentee's] arguments. *See Lorenz v. Colgate-Palmolive-Peet Co.*, 167 F.2d 423, 77 USPQ 138 (3d Cir.1947)."

(i) "There, the court addressed the following question: 'Was it the intention of Congress that public use by one who employs a process in breach of a fiduciary relationship, who tortiously appropriates it or who pirates it, should bar the inventor from the fruits of his monopoly?' "

(ii) "Lorenz had disclosed his invention to Colgate. Although Colgate told Lorenz the idea was rejected, it later made substantial commercial use of Lorenz's invention and then sought to invalidate Lorenz's patent based on this use."

(iii) "After reviewing the Supreme Court and other relevant case law, the court rejected an exception to the statutory bar, stating:

"The prior-public-use proviso ... contains no qualification or exception which limits the nature of the public use. We think that Congress intended that if an inventor does not protect his discovery by an application for a patent within the period prescribed by the Act, and an intervening public use arises from any source whatsoever, the inventor must be barred from a patent or from the fruits of his monopoly, if a patent has issued to him. There is not a single word in the statute which would tend to put an inventor, whose disclosures have been pirated, in any different position from one who has permitted the use of his process .... [I]solated instances of injustice may result if the law be strictly applied, but the inventor's remedy is sure. He is master of the situation and by prompt action [in filing a patent application] can protect himself fully and render the defense of prior public use impossible.' "

(iv) NOT BINDING BUT PERSUASIVE. "Although this decision is not binding on this court, it is persuasive."

(c) *MARTIN* (CCPA 1935)--SALES BY PARTY NOT INVOLVED IN MISAPPROPRIATION. "Even if we were to create an exception to the on sale bar such that third parties accused of misappropriating an invention could not invalidate a patent based upon sales by the guilty third party, ... *Martin* squarely holds that activities of third parties uninvolved in the alleged misappropriation raise the statutory bar, even if those activities are instigated by the one who allegedly misappropriated the invention."

(i) "In *Martin*, Martin's employer stole Martin's invention and filed an application on it and disclosed it to a third party. ... After learning of his employer's activities, Martin filed his own application. After an interference was declared, the employer argued Martin's application was barred based on the activities of the third party. Martin conceded his invention had been in public use, but argued that the bar should not apply because the third party's use was 'instigated by [his] employer and was a surreptitious and fraudulent public use against him.' "

(ii) "After reviewing the Supreme Court and other relevant case law, the Court of Customs and Patent Appeals noted it had 'been unable to find any authoritative decisions upon the question of whether a fraudulent public use of an invention ... prior to the filing of an application ... , or such public use of an invention instigated by fraud, bars the issuance of a patent ... ' "

(iii) "Although the Court of Customs and Patent Appeals did not address that precise issue, the Court of Customs and Patent Appeals did hold that allowance of the application was barred because the third party's public use had been innocent, even though it had obtained the technology from the employer."

(iv) "[T]his holding is dispositive here because, although [the patentee] has charged GM with misappropriation, it has never contended that the independent dealers had any participation in or knowledge of the alleged theft; nor is there any indication that Mr. Najarian had such knowledge. Thus, the independent dealers are innocent users who put the invention on sale by placing orders for innocent retail customers like Najarian."

(9) OTHER REMEDIES. "While such a result may not seem fair, [the patentee] is not without recourse if GM in fact misappropriated his invention."

(a) STATE COURT--MISAPPROPRIATION. The patentee "would have an appropriate remedy in state court for misappropriation of a trade secret."

(b) TIMELY FILING. "[T]he facts [the patentee] alleges in support of its misappropriation claim demonstrate that [he] knew GM stole the invention at the very time it was allegedly stolen because during the demonstration GM employees allegedly told [the patentee] they intended to steal the invention and a sealed room was unsealed during the night between the tests. [His] patent rights would have nevertheless been protected if [he] had filed a patent application no more than one year from the date of the demonstration. This he did not do; instead [he] waited for more than two years after the demonstration and some six years after it was reduced to practice."

***Continental Plastic Containers v. Owens Brockway Plastic Products, Inc.***, 141 F.3d 1073, 46 USPQ2d 1277 (Fed. Cir. 1998)

(1) DIFFERENT POLICY EMPHASES FOR "PUBLIC USE" AND "ON SALE." "Public use" and 'on-sale' bars, while they share the same statutory basis, are grounded on different policy emphases. The primary policy underlying the 'public use' case is that of detrimental public reliance, whereas the primary policy underlying an 'on-sale' case is that of prohibiting the commercial exploitation of the design beyond the statutorily prescribed time period." See § 1314.

(2) "A claimed design is considered to be 'on sale' within the meaning of section 102(b), when an embodiment of the design was sold or offered for sale in this country more than one year before a filing date to which the claim is entitled (the critical date) and the sale or offer to sell was primarily for profit rather than for experimental purposes. See *King Instrument Corp. v. Otari Corp.* ... (Fed. Cir. 1985). Integral to our analysis are '[a]ll of the circumstances surrounding the sale or offer to sell, including the stage of development of the invention and the nature of the invention, [which] must be considered and weighed against the policies underlying section 102(b).' *UMC Elec. Co. v. United States* ... (Fed. Cir. 1987)."

(3) POLICIES GOVERNING TOTALITY OF CIRCUMSTANCES. "We have enumerated the policies governing the totality of the circumstances as follows: (1) discouraging the removal from the public domain of inventions that the public reasonably has come to believe are freely available; (2) favoring the prompt and widespread disclosure of inventions; (3) allowing the inventor a reasonable amount of time following sales activity to determine the potential economic value of a patent; and (4) prohibiting the inventor from commercially exploiting the invention for a period greater than the statutorily prescribed time of one year."

***Enercon GmbH v. U.S. Int'l Trade Comm'n***, 151 F.3d 1376, 47 USPQ2d 1725 (Fed. Cir. 1998)

(1) "SALE." "Plainly, the common, or usual meaning of the term sale includes those situations in which a contract has been made between two parties who agree to transfer title and possession of specific property for a price."

(2) "SALE FOR IMPORTATION"--CONTRACT FORMATION, NO PASSAGE OF TITLE. A "sale for importation" within the meaning of Tariff Act Section 337 can occur without a delivery or a passing of title to goods. See § 5122.

(3) ORDINARY MEANING OF "SALE". "[T]he term 'sale' is not defined within section 337. There is also no explicitly stated definition of the term 'sale' in the legislative history of section 337. We therefore believe that Congress intended to give the term its ordinary meaning, thereby making an explicit definition unnecessary."



(a) **DICTIONARIES--CONTRACT TO TRANSFER TITLE AND POSSESSION.** "Black's Law Dictionary defines the term 'sale' as '[a] contract between two parties, called, respectively, the "seller" (or vendor) and the "buyer" (or purchaser), by which the former, in consideration of the payment or promise of payment of a certain price in money, transfers to the latter the title and the possession of the property.' Black's Law Dictionary (6th ed.1990). Webster's Dictionary defines the term 'sale' as 'the act of selling: a contract transferring the absolute or general ownership of property from one person ... to another for a price. ...' Webster's Third New International Dictionary 2003 (1986)."

(b) **UNIFORM COMMERCIAL CODE.** "The U.C.C. has been recognized as the general law governing the sale of goods and is another useful, though not authoritative, source in determining the ordinary commercial meaning of the term 'sale.' Section 2-106, which defines the various terms used throughout the U.C.C., states that a "[c]ontract for sale" includes both a present sale of goods and a contract to sell goods at a future time.' Section 2-106 further states that a "present sale" means a sale which is accomplished by the making of the contract.' ... Therefore, the U.C.C. is in accordance with the above referenced dictionaries in defining the term 'sale' as having been accomplished when a contract for the transfer of goods has been completed."

(c) **35 U.S.C. SECTION 102(b)--"ON SALE" BAR.** "[T]his court has previously stated, albeit in the context of interpreting the 'on sale bar' of 35 U.S.C. § 102(b), that '[i]t is well settled that a sale is a contract between parties to give and to pass rights of property for consideration which the buyer pays or promises to pay the seller for the thing bought or sold.' *In re Caveney* ... (Fed. Cir. 1985)."

**Mas-Hamilton Group v. LaGard, Inc., 156 F.3d 1206, 48 USPQ2d 1010 (Fed. Cir. 1998)**

(1) **NO DEFINITE OFFER OR SALE--POTENTIAL LICENSEE, NOT PURCHASER.** "[W]e do not discern clear error in the district court's finding that there was not a definite sale or offer for sale of the locks later claimed in the patent," because, inter alia, a pre-critical date negotiation with a party was for a potential license or production right, not a sale.

(2) **PFaff (1997).** The accused infringer "asserts that the instant factual scenario more favors finding an on-sale bar than that presented in *Pfaff v. Wells Elec., Inc.* (Fed. Cir. 1997), *cert. granted* (1998),] in which this court held that the device embodying the asserted claims in the patent-in-suit was on sale prior to the critical date and reversed the district court."

(a) "In *Pfaff*, verbal and written purchase orders were both received before the critical date, and the parties had a definite agreement before the critical date. ... Furthermore, in *Pfaff*, there were no facts in dispute, leaving only the legal issue of whether section 102(b) invalidates the patent. ... Finally, there was no doubt in *Pfaff* that what was offered for sale was the device of the later-issued patent."

(b) **POTENTIAL LICENSEE OR CUSTOMER--MOLECULON RESEARCH (1986).** "By contrast, in the instant case, the parties dispute the primary factual issue--that is, whether [another party] was merely a potential licensee of legal rights, or, rather, a potential customer of devices. The district court found that [the party] was only a potential licensee. *Cf. Moleculon Research Corp. v. CBS, Inc.* ... (Fed. Cir. 1986) (holding that '[a]n assignment or sale of rights in the invention and potential patent rights is not a sale of the invention within the meaning of section 102(b)')."

(3) **MEETING.** The accused infringer argued that (a) "a ... meeting between officials from [the patentee] and [the other party] constituted placing the lock of the ... patent on-sale," and (b) "the purpose of the meeting was to obtain a contract for ten locks."

(4) The patentee argued that "the November meeting was solely to interest [the other party] in a license under the patent and further that no deal was struck until after the critical date."

(5) PROTOTYPE FOR TESTING. The district court found that (a) the patentee "presented a prototype to [the party] and offered to furnish additional prototypes that were essentially the same device described in the ... patent," (b) "the devices were for testing or show, only, and did not represent commercial sales of the lock even though money changed hands," (c) the patentee's "offer to [the party] was only an offer of either (1) production rights in the invention, or of (2) the exclusive right to market the invention to the government; neither of which involved a sale or an offer to sell the devices themselves," (d) " 'at no time did [the patentee] offer to sell the invention to [the other party], ' " and (e) the other party "(who in 1989 initially contacted [the patentee] about making a lock that satisfied certain government specifications) provided a purchase order that was never filled, and ... no agreement was reached about the particulars of the proposed lock prior to the critical date."

**C.R. Bard, Inc. v. M3 Systems, Inc.**, 157 F.3d 1340, 48 USPQ2d 1225 (Fed. Cir. 1998), *rehearing denied & suggestion for rehearing in banc declined*, 161 F.3d 1380 (Fed. Cir. 1998)

(1) A jury verdict that patent's claims were invalid because one or two pre-critical date transactions or occurrences is supported by substantial evidence. See § 1313.

(2) "ON SALE" AS "ANTICIPATION." The accused infringer defended the jury's "anticipation verdicts by arguing that the asserted claims are anticipated because they are subject to an on-sale bar."

(a) INDEPENDENT GROUND--INVENTOR DELAY IN ENTERING PATENT SYSTEM. "[A]lthough 35 U.S.C. § 102(b) provides that an inventor's sales or offers of sale more than one year before the patent filing date may bar the grant of a valid patent, ... the on-sale bar is an independent ground of invalidity based on the inventor's delay in entering into the patent system."

(b) "Although the on-sale bar can arise from one's own invention, 'anticipation' does not arise from sale of one's own invention."

(c) The on-sale issue "is unrelated to the 'anticipation' verdicts, was not part of the jury instruction on that issue, and is not based on correct law."

(3) MAYER, concurring. "We are guided in our review of the legal conclusion by principles underlying the on sale bar: broad and prompt disclosure of inventions to the public; providing opportunity to experiment, improve, and determine the market value of inventions; discouraging inventors from withdrawing inventions that the public has already come to believe are freely available; and discouraging commercialization that expands the patent system's grant of the right to exclude others." See § 1313.

(a) NO FACTOR CONTROLS. "Because the ultimate determination of whether an on sale bar exists rests on the totality of the circumstances, that is, on consideration of the unique facts of each transaction or event, no one factor necessarily controls."

(b) FOREMOST POLICY. "Nevertheless, we have held that '[f]oremost among these is the policy of preventing inventors from exploiting the commercial value of their inventions while deferring the beginning of the statutory term. To this end, the inventor is strictly held to the requirement that he file his patent application within one year of any attempt to commercialize the invention.' *Ferag* ... ."

(c) FULL BENEFIT, FULL, TIMELY DISCLOSURE. "The inventor is entitled to the full benefit of the patent regime; the public is entitled to full, timely disclosure of the protected invention."

(4) BRYSON, concurring. "It is undisputed that the needles sold in June 1985 embodied the invention of the '056 patent. Whether that sale was sufficient to invoke the on-sale bar turns on whether the sale falls within the 'experimental purpose' exception to the on-sale bar." See § 1313, § 1314.

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Section of Patent, Trademark and Copyright Law

Committee Reports to be presented at the Annual Meeting,  
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1985 ABA Sec. Patent, Trademark & Copyright Law Rep. 248

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COMMITTEE REPORT: DIVISION IV--UNDER SECTION VICE-CHAIRMAN, WILLIAM MARSHALL LEE,  
CHAIRMAN, COMMITTEE NO. 406--COMPUTER SOFTWARE, JOSEPH B. TAPHORN, CHAIRMAN

TEXT:

Scope of Committee: In cooperation with other committees of this Section, monitors and reports on the status of all statutory and non-statutory types of legal protection for computer software; considers, reports on and makes recommendations concerning the creation of any new type(s) of statutory protection for computer software and/or changes in any existing types of statutory protection for computer software.

General Discussion. The committee has generally done its work through subcommittees, as manifested by the following subcommittee reports. The committee is presently responding (1) to a request to identify LTAC liaison persons for the Section; and (2) in an informal way to a recent U.S. Copyright Office proposed revision of the deposit regulations as they affect software.

SUBCOMMITTEE A RONALD T. REILING, Subcommittee Chairman

Subject 1. PIRACY.

NO PROPOSED RESOLUTION.

Past Action. At the Annual Meeting in 1983, the Section passed Resolution 406-1 favoring the principle of more stringent criminal penalties for software piracy and counterfeiting.

Discussion. The decisional law and the legislative law continue to evolve in a manner which would deter piracy and counterfeiting of computer software. Piratical imports, however, remain a serious problem for the developers and distributors of software. It would be desirable to provide a "quick and easy" remedy against such parties in order to avoid the substantial economic injury caused by time delays and the large costs associated with the traditional approaches. The subcommittee is investigating ways to quickly and easily handle piratical imports.

SUBCOMMITTEE B JOHN P. SUMNER, Subcommittee Chairman

Subject. PENDING LEGISLATION.

NO PROPOSED RESOLUTION.

Past Action. Note.

Discussion. Consideration of a proposal by Tom Olson of the Senate Judiciary Committee Staff has been initiated by the subcommittee. The Olson proposal would amend Section 117 of the Copyright Act to deal somehow with the sale of devices and/or software for defeating technical protection mechanisms for software.

SUBCOMMITTEE C TIMOTHY H. GENS, subcommittee Chairman

### Subject 3. PATENT CASES.

#### NO PROPOSED RESOLUTION.

Past Action. None.

Discussion. During the year 1984 the CAFC and TTAB has done little to further the law of statutory subject matter as it relates to computer operations, with only one reported opinion in the case of RCA Corporation v. Applied Digital Data Systems, Inc., 221 U.S.P.Q. 385 (Fed. Cir. 1984). The patent involved in this case discloses a system for decoding digital symbol codes representing a message and converting them into video control signals for display of the message on a television screen. The majority reversed a holding of invalidity stating that the District Court erroneously equated a particular element in the prior art to the means of the patent on the grounds that an element expressed in terms of means plus function, absent structure and prior art reference that is capable of performing functional limitation of means, is not anticipated by the prior art. Specifically, the evidence was insufficient to suggest that an artisan of ordinary skill at the time of the invention was made would have perceived the feasibility of substituting a digital character generator for a monoscope.

The dissenting opinion would have affirmed the District Court findings because the specification of the patent disclosed a system for computer generated digital data, but did not disclose any specific structure for implementing the system. It states that since the drawings in the patent disclosed the invention in functional block diagrams and the specification was neither explicit nor limited as to the contents of these blocks, the means of the patent and the element of the prior art were equivalents of one another.

SUBCOMMITTEE D STEPHEN ALAN BECKER, Subcommittee Chairman

### Subject 4. COPYRIGHT CASES.

#### NO PROPOSED RESOLUTION.

Past Action. None.

Discussion. There were half dozen or so cases that were decided and/or reported in 1984 involving the copyrightability of computer software: Rand McNally & Co. v. Fleet Management Systems, Inc., 221 U.S.P.Q. 827, 223 U.S.P.Q. 1200 (N.D. Ill. 1983); Apple Computer, Inc. v. Formula International, Inc., 725 F.2d 521, 221 U.S.P.Q. 762 (9th Cir. 1984); Freedman v. Select Information Systems, Inc., 221 U.S.P.Q. 848 (N.D. Cal. 1983); S & H Computer Systems, Inc. v. SAS Institute, Inc., 222 U.S.P.Q. 715 (M.D. Tenn. 1983); Videotronics, Inc. v. Bend Electronics, 586 F. Supp. 478, 223 U.S.P.Q. 936 (D. Nev. 1984); Midway Mfg. Co. v. Dirkschneider, 223 U.S.P.Q. 83 (D. Neb. 1983); MicroSparc, Inc. v. Amtype Corp., 223 U.S.P.Q. 1210 (D. Mass. 1984). and Atari, Inc. v. JS&A Group, Inc., 597 F. Supp. 5 (N.D. Ill. 1983).

In Rand McNally the Court ruled that plaintiff's 1978 and 1982 Mileage Guides, comprising mileage data compiled by plaintiff, were indeed "compilations" as defined by 17 U.S.C. § 103 (The Copyright Act). The Court in the first ruling cited above, however, did not decide as to the copyrightability of the mileage data, such relating specifically to the distance between selected points and between key point cities.

On July 25, 1984, the Court did address this issue (second citation) and ruled that indeed the mileage data here were copyrightable compilations, being the result of effort sufficient to justify copyright protection. The defendant argued that such data were copied from sources in the public domain and should not thereby be given protection. The Court, however, asserted that the plaintiff did not just copy from the public domain sources, but further processed the data, using them as base mileages to determine mileages for small distance segments, then unavailable.

With respect to infringement, unlawful copying arises from the unauthorized inputting of a copyrighted work into a computer, as defendants had done. Just because the arrangement of plaintiff's mileage data appeared different when in defendant's data base, did not preclude a finding of unlawful copying. Furthermore, the copying itself into a computer data base did not preclude a finding of infringement.

Examining contentions that fair use might apply, particularly considering the legal leeway allowed to factual compilations, the Court was not convinced that such a defense could be sustained.

The *Apple v. Formula* case was an appeal by defendant from the Lower Court decision granting plaintiff's motion for a preliminary injunction. The Ninth Circuit affirmed the injunction prohibiting Formula "from copying computer programs having copyrights registered to Apple, from importing, selling, distributing, or advertising those copies, and from using the mark 'Pineapple' or any other mark or name confusingly similar to the trademarks used by Apple." 221 U.S.P.Q. 762, 763. The standard of review of the Lower Court's decision used by the Ninth Circuit was affirmation of that decision unless there was an abuse of discretion or the decision was based on an erroneous legal standard or clearly erroneous findings of fact.

In affirming the Lower Court's ruling, the Ninth Circuit cited earlier software copyrightability case law, the CONTU Report (including dissenting opinions thereto), and the Copyright Act of 1976, as amended in 1980. In fact, the Appellate Court went so far as to assert that "Formula's position . . . is contrary to the language of the Copyright Act, the legislative history of the Act, and the existing case law concerning the copyrightability of computer programs. As examination of the legislative history reveals that Formula's arguments were considered and rejected by Congress when copyright protection was extended to computer programs." 221 U.S.P.Q. at 764.

*Freedman v. Select Information Systems, Inc.* concerned an action for infringement of certain computer software module copyrights. Plaintiff moved for a preliminary injunction or alternatively for a requirement that defendant deposit with the Court a percentage of gross earnings arising from their use of the software modules at issue. The motion for preliminary injunction was granted.

The parties had entered into a business relationship in 1980 to distribute a program designed by plaintiff prior to such business relationship, although defendant alleged that the program was developed by plaintiff as an employee of the corporation formed by the two parties. Furthermore, there was a dispute between the parties as to the nature of the license to distribute the software. In 1982, there was corporate disruption during which plaintiff was essentially kicked out. During November 1982, plaintiff acquired copyright registration certificates for many of the computer programs in question in this case. The same Court, at the end of that year, issued a temporary restraining order permitting defendant to continue to market the software, but requiring them to deposit a percentage of their gross receipts with the Court, and plaintiff was required to post a bond.

The Court had no question as to the copyrightability of computer software and further asserted that "(t)o the extent that the program which is marketed by the defendant corporation incorporates some or all of plaintiff's copyrighted programs, it constitutes a 'derivative work'." 221 U.S.P.Q. 848, 850. The Court concluded that the defendant did not meet their "very high" burden of proof to overcome the prima facie presumption of validity of plaintiff's certificates of copyright registration on the underlying software modules.

As to the exclusivity/non-exclusivity dispute regarding the license to distribute the software, the Court clearly pointed out that the transfer of a non-exclusive license is not thereby a transfer of copyright ownership. Finally, the Court asserted that in a demonstration of a prima facie case of copyright infringement, there is a presumption of irreparable injury and a preliminary injunction will issue.

*S & H Computer Systems, Inc. v. SAS Institute, Inc.* presented an action involving issues of copyright infringement, breach of contract, fraud in procurement of license, and misappropriation of trade secrets with respect to statistical software. Defendant's motion for partial summary judgment was granted in part. Plaintiff had moved to dismiss defendant's claim of copyright infringement.

As regards the copyright infringement aspect of this case, plaintiff admitted that in the development process of its own product, it repeatedly infringed a valid copyright in defendant's product version by making copies of defendant's source code not authorized under the license agreement between the parties. The Court cited case law to support the conclusion that a licensee infringes a copyright by exceeding its license. The "ultra vires" behavior includes, according to the Court, use of defendant's program on a non-designated CPU, making unauthorized copies, as well as use of defendant's program after the license agreement was properly terminated. The Court granted defendant's motion for summary judgment on this issue, but noted that its finding would be binding only after proof of valid copyright in defendant's software version.

In that respect, the Court asserted no doubt as to the copyrightability of computer software, citing case law and the CONTU Report. However, as to any similarities between plaintiff's and defendant's software, and the degree of such similarities, the Court concluded that there was a genuine issue of material fact here to preclude the granting of defendant's motion for summary judgment on this issue.

In the Videotronics case, the Court discussed the issue of copyright notice generated by a computer on video games programs, finding that the letter "c" surrounded by a hexagonal figure (as opposed to a circle) was adequate copyright notice. That aside, however, the Court also held that mere random and infrequent appearance of that notice during the playing of the video games, even though regular notice was technologically feasible, constituted insufficient reasonable notice of claim of copyright. This was found to hold even where the infringing parties were entirely aware of the existence of a copyright claim. Plaintiff was not totally out of luck, however. There was a separate program at issue for which there was adequate copyright notice, thereby establishing the existence of a ground for preliminary injunction relief.

The Midway case is an action for copyright infringement, Lanham Act violation, and Nebraska Deceptive Trade Practices Act violation.

Plaintiff's motion for partial summary judgment on the issue of liability was granted.

For earlier cases involving these two parties, see also 214 U.S.P.Q. 417, 215 U.S.P.Q. 332, and 215 U.S.P.Q. 336. The case involves video games designed, manufactured and sold by Midway. Midway obtained registered copyrights in the audiovisual works embodied in three of its games. Copying of a game can be effected by electronically reproducing information stored in the printed circuit boards. The Court discussed basic copyright law in reaching the conclusion that plaintiff's copyrights were indeed valid and infringed. Furthermore, since the Copyright Act in Sections 106(3) and (4) comprehends resale and public display (performance) of unlawfully copied machines within the array of prohibited activities, the Court ruled that the defendant could not avoid liability by demonstrating that they did not manufacture the copies which were distributed and displayed.

MicroSparc presented an important action for copyright infringement. In a case of apparent first judgment, previously having denied plaintiff's motion for a temporary restraining order and a preliminary injunction, the issue was whether copyrighted computer programs appearing in a magazine published by the copyright owner may be placed on disks, duplicated and sold to purchasers of the magazine by a third party. Essentially, the defendant typed the programs from the magazine into a computer, after which the programs were transferred to a "master disk". Then the programs were copied from the master disks onto blank disks for subsequent distribution.

It was this third party participating in the copying which dictated the outcome. The Court, in its analysis of 17 U.S.C. 117(1) and (2), offered by defendant in its argument, concluded the defendant's activities fell outside the exceptions delineated in Subsections (1) and (2) of Section 117, and that plaintiff copyrights were infringed by those activities.

The Court suggested that Subsection (1) had not been subject to interpretation by any other court theretofore. That Subsection allows the owner of a copy of a computer program to make or authorize the making of another copy provided "that such new copy is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner". In this case, the Court offered its opinion that the "essential step" phrase refers to the actual "inputting" of the program into a computer, and that such inputting necessitates the preparation of a copy. The Court cited the CONTU Report for the legislative history of Section 117, asserting that Subsection (1) "was enacted simply to permit the rightful possessor of a program to input and use it." Note that Section 117 as enacted in 1980 refers not to the rightful possessor, but to the owner of the computer program. Nevertheless, the Court concluded that the permission to copy allowed by this Subsection "is strictly limited to inputting program." 223 U.S.P.Q. at 1212. Furthermore, the Court rules that this Subsection does not give the owner/rightful purchaser of a copy of a computer program the right to authorize a third party to make such copies (disk-bound or presumably otherwise) for him or her. The Court asserted that this Subsection "permits the second 'input copy' created by the purchaser, not the first disk copy created by 'a third party. Id. With respect to Subsection (2) of 117 ('that such copy or adaptation is for archival purposes only. . .'), the Court stayed consistent with its analysis of Subsection (1) and ruled that Subsection (2) also does not permit the rightful purchaser/owner of a copy of a computer program to authorize a third party to put the programs from the magazine on disks for archival purposes. In that case, the purchaser would not

have first created a copy subject to "destruction or damage by mechanical or electrical failure." 17 U.S.C. 17(2). The Court refused to decide "whether one who purchases a program disk from the plaintiff also may make archival copies." 223 U.S.P.Q. 1212.

It is clear that this Court did not want to construe Section 117 as liberally as the defendant would have wished.

Finally, in the Atari v. JS&A case, another Section 117 case, the marketing of PROM BLASTERS, a device for duplicating video games on ROMs, was preliminarily enjoined. The court concluded that the defendant's acts did not fall within the exceptions of Section 117. The dangers to ROMs are physical dangers not unlike the risk that a handwritten computer program will be shredded accidentally. These are different dangers than "destruction or damage by mechanical or electrical failure".

SUBCOMMITTEE E E. ROBERT YOCHEs, Subcommittee Chairman

Subject 5. ~~TRADE SECRET CASES~~

NO PROPOSED RESOLUTION.

Past Action. None.

Discussion. The cases reported in 1984 involving trade secrets in computer software ran the gamut from conventional trade secret problems to antitrust issues and even to claims of tortious interference with business raised by those accused of taking trade secrets. The decisions cumulatively offer a rich discussion of the relevant trade secret issues.

Some of the cases involved companies' attempts to restrain their former employees from joining competitors and using the companies' trade secrets in their new employment. For example, in Business Intelligence Services, Inc. v. Hudson, 580 F. Supp. 1068 (S.D.N.Y. 1984), defendant was a former senior consultant for plaintiff who attempted to join Management Technology, Inc. (MTI), a competitor of plaintiff's which had been formed by one of plaintiff's former presidents. The court, in preliminarily enjoining defendant, found that plaintiff would suffer irreparable harm if defendant worked for MTI because defendant had extensive knowledge of plaintiff's computer software and client information, both of which were recognized as trade secrets, and because it was "likely, if not inevitable and inadvertent," that defendant would disclose such information to MTI if she began employment with MTI. 580 F. Supp. at 1072. The court then found that such harm would be irreparable due to the "ephemeral and essential quality of the knowledge" which defendant could convey to MTI and the difficulty which plaintiff would have in establishing both the existence of the injury and the amount of monetary damage if defendant joined MTI. See id. at 1072. See also, Capraro v. Lanier Business Products, Inc., 445 So. 2d 719 721 (Fla. App. 4 Dist. 1984), where irreparability was presumed in issuing preliminary injunction for violating covenant not to compete.

Comshare, Inc. v. Execucom Systems Corp., No. 84 CV-7252-AA (E.D. Mich. Sept. 5, 1984) involves facts somewhat similar to those in the preceding case, but a different result ensued due to the former employee's actions in terminating employment. One of the plaintiffs was defendant's former regional manager and was responsible for the sale of defendant's products in the midwestern and northeastern states and in Canada. In 1979, she signed an employment contract with defendant which prohibited her from disclosing trade secrets, soliciting defendant's employees, and, for three years after terminating her employment with defendant, from soliciting defendant's customers.

The first issue to be decided involved conflict of laws. The court decided that, despite Michigan statutes rendering non-competition agreements void, the 1979 agreement was enforceable since it was held to be construed according to Texas law.

The court ultimately held for the plaintiff, however, because of a January 1984 termination agreement between plaintiff and defendant which, by its own terms, superseded the 1979 agreement. The termination agreement repeated plaintiff's obligations not to disclose trade secrets but said nothing about non-competition which the court held to be a release by defendant of plaintiff's earlier contractual obligation not to compete.

In Comshare, the former employee and her new employer took the offensive and sued for a declaratory judgment. In other cases this past year, former employees accused of misappropriating trade secrets, who either brought their own



actions or counterclaimed, asserted counts of tortious interference with prospective business advantage, slander, intentional infliction of emotional distress and malicious prosecution. See, e.g., *Disher v. Fulgoni*, 464 N.E. 2d 639 (Ill. App. 1 Dist. 1984) and *National Loss Control Service Corp. v. Dotti*, 467 N.E. 2d 937 (Ill. App. 1 Dist. 1984). One defendant also argued that the former employer had breached a dependent covenant since the employment contract obligated the employer to disclose trade secrets which it allegedly did not. *Capraro*, 445 So. 2d at 721.

The reported cases were not limited to those involving former employees. In *Dickerman Associates, Inc. v. Tiverton Bottled Gas Co.*, No. 82-356-Z (D. Mass. Feb. 17, 1984), the plaintiff licensed, sold, and serviced a program entitled *Jobber Maintenance System ("JMS")* to provide accounting and management information for independent petroleum distributors or jobbers. Defendant purchased JMS under a contract that obligated defendant to treat the program as confidential, but the court found that defendant used the JMS manuals and software to design its own program *FuelPak*.

In finding defendant liable, the court explained that the burden of one asserting a trade secret in a computer program involves only the showing that the program architecture is valuable and not common knowledge or readily duplicated, and that the owner developed the program and keep it secret. In admitting that a knowledgeable person could easily discern the general outline of the program and its source code by using the program, the court seemed to be suggesting broader trade secret protection for computer software, since reverse-engineering is normally allowed under trade secret laws. See also *Business Intelligence Services* where the nature of software appeared to be important in finding the irreparability of the harm. Perhaps the reason for any apparent enlargement of trade secret protection was the *Dickerman* court's recognition of the precautions which plaintiff took to protect its trade secrets.

Trade secrets in the software area can also prove to be a liability as demonstrated in *Digidyne Corp. v. Data General Corp.*, 734 F. 2d 1336 (9th Cir. 1984). Plaintiff sued defendant for violations of the Sherman and Clayton Acts, alleging that defendant had unlawfully tied the sale of its NOVA computers to the sale of its NOVA operating system. The jury found for plaintiff, but the judge entered a judgment n.o.v. for the defendant. The Ninth Circuit Court reversed and found defendant's refusal to license its NOVA operation system software to anyone other than purchasers of its NOVA computers, to be an unlawful tying arrangement.

A central question in this case was whether defendant had sufficient economic power to be liable under the antitrust laws. The circuit court found abundant evidence to show that defendant's NOVA operating system could not be reproduced without using defendant's trade secrets and infringing defendant's copying right (some of the evidence coming from defendant's own officers and customers). The court also held that defendant's copyright (and presumably its trade secrets) created a presumption of economic power sufficient to render the tying arrangement illegal per se, thereby avoiding the need for detailed analysis of competitive conditions in the market for the tied product.

A case in conflict with *Digidyne* is *3 P.M., Inc. v. Basic Four Corp.*, No. 79-74416 (E.D. Mich. Aug. 1, 1984), where, ironically, the district court relied heavily on the now-reversed lower court decision in *Digidyne*. The basis of the suit was a dealer arrangement between plaintiff and a predecessor of defendant that obligated plaintiff to use its best efforts in requiring that its customers use another predecessor of defendant for installation and maintenance purposes. The agreement also required plaintiff, with few exceptions, to purchase only from defendant's predecessor. Defendant terminated the agreement alleging that plaintiff failed to achieve its quotas.

Plaintiff asserted that, because of these terms, its agreement with defendant violated the antitrust laws. Plaintiff also asserted that defendant possessed sufficient economic power for an unlawful tying arrangement because its products were unique, shown for example, by defendant's trade secrets. The court disagreed and held that neither defendant's trade secrets nor its trademarks or copyrights relieved plaintiff of its burden to prove that defendant possessed an advantage not shared by its competitors in the market. This holding contrasts with the circuit court opinion in *Data General* in which the defendant's copyrights, and perhaps trade secrets, created a presumption of sufficient economic power.

Allegations of antitrust violations were also the basis of the countersuit by defendant in *Technician Data Systems Corp. v. Curtis 1000, Inc.*, No. 7644 (Del. July 2, 1984) in response to plaintiff's suit for trade secret misappropriation.

The final case of note in 1984 involving computer software trade secrets reads like a fairy tale with an unhappy ending. The plaintiffs in *Burten v. Milton Broadly Co.*, No. 81-0331-S, slip op. at 1 (D.R.I. Aug. 14, 1984) were "independent game inventors" while the defendant was characterized as "a colossus which has stood astride the toy and

game industry for many a moon." Plaintiffs created an electronic board game concept which the court found contained trade secrets. Plaintiffs presented a demonstration model of a game to defendant who was also trying to develop a computerized electronic board game. Defendant rejected plaintiff's concept and later came out with its own game called "Dark Tower" which the jury found included plaintiffs' concept and trade secrets.

The court upheld the verdict finding that there was sufficient evidence to establish an industry custom among reputable game and toy companies to maintain the secrecy of ideas submitted by outside inventors and to use inventions only if royalties are paid to the inventor. The court also found that defendant adhered to this custom and fostered such an understanding with outside inventors. Although acknowledging that the jury could find that the actions of the parties gave rise to a confidential relationship, plaintiffs did sign an agreement with defendant prior to disclosing their ideas. In that agreement, defendant disclaimed the creation of any confidential relationship between it and plaintiff and limited the disclosure to the rights under the patent laws. Because of that agreement, the judge granted a judgment n.o.v. and absolved the defendant from liability for trade secret misappropriation.

In explaining its decision, the court noted the equities on defendant's side, including the recognition of the intangibility of ideas and the difficulty of tracing their "paternity". The court also acknowledged that, without such agreements as defeated plaintiffs' recovery in this case, defendant could not effectively safeguard itself against misappropriation suits and might have to curtail submissions from independent inventors. Quite simply, it takes two to tango in the trade secret game and defendant refused to dance. In its parting shot, the court noted that:

In the last analysis, it should be noted that life itself is often unfair; and volitional agreements need not be perfectly balanced to have legal force and effect, Coleman and Burten made their bed when they eagerly affixed their signature to the disclosure record form in order to induce (Milton Bradley) to look at their wares; they can not now sleep elsewhere. . . Id. at 19

This case stand as a pointed example of the truism that "one who claims that he has a trade secret must exercise eternal vigilance to safeguard it." J. T. Healy & Son v. James A. Murphy & Son., 357 Mass. 728, 260 N.E. 2d 723, 731 (1970).

SUBCOMMITTEE F RICHARD H. STERN, Subcommittee Chairman

Submect 6. POSSIBLE INTELLECTUAL PROPERTY LAW ENHANCEMENTS.

NO PROPOSED RESOLUTION.

Past Action. None.

Discussion. Representative Kastenmeier is reported, in the Washington Post for January 8, 1985, to have said at a news conference held the day before by the Copyright Office in connection with the inauguration of chip mask-work protection: "Other products, such as computer and video software not clearly protected under the existing system of -- copyrights, may be examined -- this year to determine whether new legislation is necessary -- ". Mr Kastenmeier reportedly went on to say: "Despite 'theoretical protection' under existing copyright law, the current copyright law does not 'wholly respond to all the problems that have arisen in (the computer software) area". It is not clear whether the Congressman is concerned about the possible lack of an execution right for computer programs, which is on this subcommittee's current agenda, or whether as chairman of the responsible subcommittee of the House he is considering hearings on whether added protection should be given to algorithms, concepts of programs, artificial intelligence systems, and other things that existing copyright law may classify as "ideas" rather than "expression." These matters are on this subcommittee's long term agenda. Otherwise, many of those in the software industry feel that copyright law has been developing satisfactorily. The Section position supports the copyright protection of software. Congressional activities will be monitored to develop a feel for their direction.

The subcommittee proposes to explore next year the merits of a resolution in favor of a proposed amendment to 17 U.S.C. § 106 to add a new clause giving the owner of copyright in a computer program the exclusive right to cause the execution thereof. The decision in Midway Manufacturing Company v. Dirkschneider et al, 223 U.S.P.Q. 83 (D. Neb. 1983) found that the placement of coinoperated electronic video games in various locations for public use, resulted in liability for publicly performing the audio visual works in the copied games in violation of 17 U.S.C. 106(4). It may be